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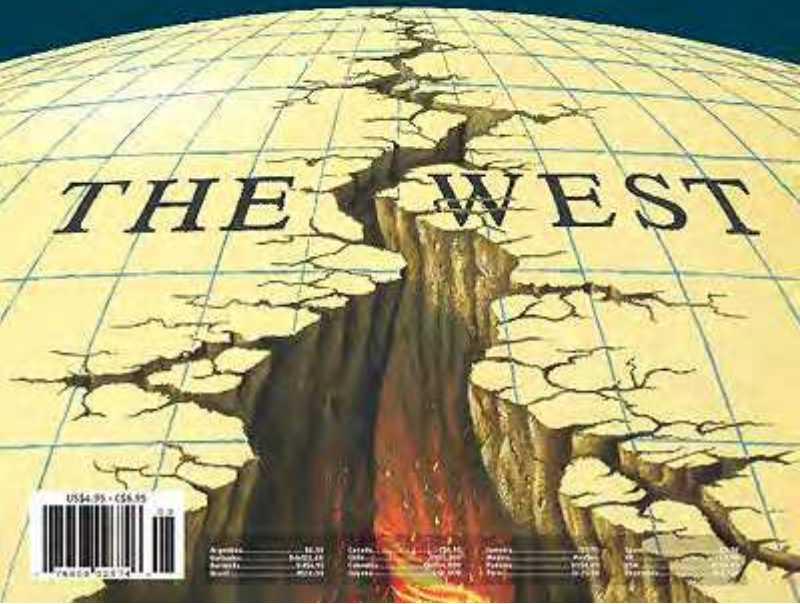

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Print Edition — February 15th 2003

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Politics this week

Feb 13th 2003
From The Economist print edition

Disarray in the West

Anti-war protesters planned marches in cities across Europe as the United Nations Security Council awaited another report from Hans Blix, its chief weapons inspector for **Iraq**.

A rift widened between the **United States** on the one hand and **France** and **Germany** on the other. The Americans, backed by Britain and more than half the 25 countries of Europe that are in the European Union or soon to join it, seemed poised for war. The French, Germans and Russians argued that the UN's inspectors in Iraq should be given more time.

See article: Dealing with Iraq

Another, no less ugly, rift opened within **NATO** when France, Germany and Belgium refused to authorise defensive weapons for Turkey, which is a fellow member of the alliance and which borders Iraq, arguing that this would lock NATO into a “logic of war”. Most of the other 16 countries in the alliance criticised the trio's actions.

See article: NATO divided

An alleged audio message from **Osama bin Laden**, broadcast by the al-Jazeera television station, called on Muslims to resist American attacks on Iraq. Though the tape repeatedly condemned the infidel nature of the Iraqi regime, it was cited by Colin Powell, America's secretary of state, as evidence of a link between al-Qaeda and Iraq.

See article: A common enemy?

Some 2,300 soldiers and police patrolled London's **Heathrow airport** as the British authorities gave warning of a possible terrorist attack.

Reuters

Prospects of another **terrorist attack** scared America, too. The Bush administration raised the national terror alert to “code orange”, the second-highest level. The FBI's director said that “several hundred members” of al-Qaeda might be in the country.

See article: America gets frightened about terrorism

Iran's nuclear ambition

Iran announced that it was poised to start enriching uranium as part of a “peaceful” nuclear-power programme. The United States, which suspects the country of nuclear-weapons ambitions, expressed “grave concerns”. America and the EU called on Iran to sign up to tough new international inspections.

See article: Why Iran's no North Korea

Ariel Sharon formally began the process of creating a new coalition government, which he hopes will include the Labour Party. Labour supports talks with the Palestinians, and it was confirmed that last week Mr Sharon had had his first meeting in nearly a year with senior colleagues of Yasser Arafat.

Israeli tanks went into Bethlehem after an army officer was killed, and both the **West Bank** and **Gaza** were totally sealed from Israel for the week-long Eid festival. The UN gave warning that its emergency food programme for Palestinian refugees was in jeopardy unless donor countries responded to its appeal.

The Commonwealth looked set to end its suspension of **Zimbabwe** after Nigeria and South Africa argued that the situation had improved. The EU is expected to renew sanctions but Robert Mugabe will be allowed to travel to Paris for a meeting. Two Zimbabwean cricketers wore black armbands during a World Cup match in Harare. One has since been suspended from his local club.

A **meningitis** epidemic has claimed the lives of some 200 people in Nigeria and at least 58 in Burkina Faso. The World Health Organisation has announced that millions of Africans are to be vaccinated against a new killer strain.

Ever closer union?

A draft **constitution for the** EU gave hope to those wanting tighter integration, though the promise of “ever closer union”, prominent in previous treaties, was dropped. The first article of the draft, however, said that the Union would “administer certain competences on a federal basis”. Rousing stuff.

See article: A draft constitution for the European Union

Kim's birthday gift

Reuters

In a move to bring pressure on **North Korea** to abandon its nuclear plans, the International Atomic Energy Agency reported to the UN Security Council that the North was in breach of UN safeguards. The Security Council has the power to impose economic sanctions on the North. In Pyongyang, the streets were being decorated in preparation for the 61st birthday of the North's leader, Kim Jong Il.

The Philippines expelled an Iraqi diplomat, Husham Husian, claiming that he had been in contact with Abu Sayyaf, a Muslim group blamed for terrorism in the south of the country.

In what was seen as a conciliatory message to **Myanmar's** ruling generals, the democratic leader Aung San Suu Kyi called for immediate talks “for the good of the entire people”. She said that she did not “consider anyone as an enemy”.

American bombers pounded a mountain ridge in central **Afghanistan** after ground forces spotted a number of armed men, believed to be members of the Taliban. Afghan authorities in the area said 17 civilians had been killed in the bombing.

See article: Don't start what you can't finish

Wang Bingzhang, a Chinese dissident, was sentenced to life imprisonment for “terrorism”. Mr Wang, a resident of the United States, is believed to have been kidnapped by **China** while on a visit to Vietnam. An American spokesman suggested that China was misusing the war on terrrorism to repress dissent.

See article: In no mood for dissent

Blast in Bogota

A huge car bomb in the car park of an exclusive social club in Bogotá, **Colombia's** capital, killed 35 people and injured over 160. Government officials blamed the FARC guerrillas. In a separate incident, Juan Luis Londoño, the health and labour minister and a prominent reformer in President Álvaro Uribe's cabinet, died when the light plane in which he was travelling crashed in the Andes.

See article: Terrorism

At least 14 people were killed and more than 100 injured in La Paz, **Bolivia's** capital, after striking police and civilians clashed with troops in protests at austerity measures proposed by the government.

Brazil's new left-wing government, which is battling to reassure investors that it can service the country's debt, announced a tightening of fiscal policy, involving cuts in social spending.

See article: Brazil's budget cuts

The IMF said that its board would vote on a $200m loan to **Ecuador** next month. Lucio Gutiérrez, the country's new left-leaning president, said after meeting George Bush in Washington that he wanted to become one of the United States' “best allies”.

Getty Images

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Business this week

Feb 13th 2003
From The Economist print edition

Follow the oil

BP brushed aside political and economic uncertainties to invest $6.75 billion in Russian oil. The British oil giant will take a 50% stake in TNK, Russia's fourth-largest producer. BP also announced that it would invest $20 billion in production in five less traditional oil-producing areas, including Angola and Trinidad.

See article: BP's big deal

British Airways confirmed the gloom surrounding the world's airlines. It said that it thought 2003 would be tougher than last year, with no revenue growth. The airline made a pre-tax profit of £25m ($39m) in the last quarter of 2002, but a war with Iraq is likely to set back the airline's recovery.

See article: Rod Eddington of British Airways

Reuters announced a loss of £370m ($556m) at Instinet, an American electronic stock exchange of which it owns 63%, after restructuring costs and the write-off of goodwill associated with the purchase last year of Island, a rival exchange. The business has been a victim of America's poorly performing markets.

Renault's profits rose in 2002, to *euro*2 billion ($1.9 billion), after a strong performance at Nissan, its part-owned Japanese carmaker.

Philips made a record loss of *euro*3.2 billion ($3.0 billion) in 2002, despite earlier assuring investors that it would return to profit after a mammoth loss in 2001. The Dutch consumer-electronics group was forced to write down various investments, including chopping some *euro*2 billion from the value of its minority stake in Vivendi Universal.

Not calling any more

PCCW blew hot and cold on an offer for **Cable & Wireless** after investors took fright at suggestions that the Hong Kong phone company might buy the British firm. PCCW surprisingly halted its approach to C&W, to the relief of shareholders, who fear a return to the overambitious expansionism of Richard Li, the company's youthful boss.

See article: Richard Li is in the limelight again

Microsoft faced a new assault from competitors on the European front, after the software giant emerged relatively unscathed from American antitrust proceedings. An umbrella organisation representing Sun Microsystems, Oracle and Nokia, among others, filed a complaint with Europe's competition watchdogs against the latest version of the Windows operating system, complaining about the bundling of software designed to secure a grip on communication- and entertainment-software markets.

Qualcomm followed the lead of Microsoft by announcing that it would pay a (small) dividend, and buy back shares worth $1 billion, rather than hang on to all its cash. Many technology firms have tended to think that any spare money could be put to better use in their hands than in the pockets of shareholders.

Rupert Murdoch's aim of buying **Hughes Electronics** and hence acquiring DirecTV, to fulfil a long-standing ambition to be a leading satellite broadcaster in America, met with potential opposition.

SBC Communications was said to have begun discussions with Hughes's owners, General Motors. SBC hopes to shore up its profits by offering entertainment products alongside its increasingly unprofitable telecoms business.

Viacom reported a fourth-quarter profit of $652m, after a loss of $43m a year ago. The giant American media company benefited from a healthy increase in television advertising revenues.

A French court acquitted **Yahoo!** and its former boss, Tim Koogle, of crimes against humanity for allowing the sale of Nazi memorabilia on the internet firm's American auction website, after a complaint by French Jewish groups in October 2001. Yahoo! now bans the sale of most Third Reich mementoes.

Far from stimulating

Alan Greenspan, chairman of the Federal Reserve, criticised President George Bush's plans for tax cuts. He hinted that any such cuts should be matched by reductions in spending, rather than allowing a destabilising increase in the deficit; and he suggested that emergency stimulus might not be necessary if uncertainties over Iraq are cleared up.

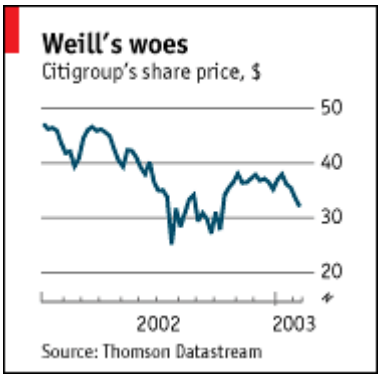
See article: Urging restraint

Family business

Sir Evelyn de Rothschild, chairman of London-based **N.M. Rothschild & Sons**, ensured continuity at the long-established investment bank by giving his cousin David de Rothschild, chairman of the family's French bank, a bigger role. Edouard de Rothschild, David's younger half-brother, will take over more of the French business.

See article: Can Rothschild remain independent?

Sandy Weill, chief executive of **Citigroup**, decided to forgo his bonus for 2002 because of the poor performance of the financial conglomerate's shares, which declined by 25% over the year. In 2001 he trousered an extra $17m.



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The western alliance in disarray

How deep is the rift?

Feb 13th 2003
From The Economist print edition

Not a shot fired, but the Iraq war has already inflicted needless collateral damage on the western alliance

THERE are some things for which even *The Economist* does not blame Saddam Hussein. One of these is the sudden collapse this week of a common western stand against the Iraqi dictator. For this—and for the serious danger that this collapse poses to the health of the Atlantic alliance, the NATO alliance, the United Nations and the European Union—the West has only itself to blame. How did it all go so wrong?

The answer is more complicated than it looks. Ostensibly, all that has happened is that some of the leading powers have fallen out over Iraq (see article). George Bush and Tony Blair say that Mr Hussein has failed to take his last chance under Security Council Resolution 1441 to give up his weapons of mass destruction (WMD) and must now be disarmed (and removed) by force. Jacques Chirac and Gerhard Schröder, the French president and German chancellor, say that the diplomacy has not yet run its course. Instead of a swift move to war (France), or instead of war (Germany), they want to send in more arms inspectors. Russia's President Vladimir Putin is siding with the French and Germans, though his desire for American friendship may soon persuade him to peel away.

Failure in three dimensions

If Iraq were the whole story, mending this rift might be simple. Diplomats are practised savers of faces. America has not yet finished its military preparations, so Mr Bush can easily afford to let the inspections run a bit longer if that would placate France and Germany. Or Hans Blix, the chief inspector, may at some point tell the Security Council (he was to report again on Friday, after *The Economist* went to press) that inspectors, no matter how numerous, can achieve nothing more if they do not get the full co-operation that Iraq has so far withheld. Once Mr Blix says this, Messrs Chirac and Schröder might feel able to concede that the “serious consequences” promised in Resolution 1441, which France helped to design and Germany welcomed, had now to entail the use of force. Or Mr Blix's men might actually find something seriously incriminating on the ground, paving the way for a Franco-German conversion on the road to Baghdad.

But Iraq is not the whole story. To make sense of this rift it helps to think in three dimensions. One is geological: the tectonic shifting of attitudes in different bits of the world. Another is institutional: bodies such as NATO, the UN and the EU shudder at the grinding of the plates beneath them. The last is personal. If the West is at sixes and sevens this week it is because the earth moved, the institutions wobbled and a handful of politicians—notably France's Mr Chirac—reacted by taking all the wrong decisions.

Geology matters most. Generalisations are odious. But there exists a widening gulf of incomprehension between the people of America and the peoples of Europe. Since the felling of the twin towers, Americans have by and large come to think that the world is a dangerous place from which unexpected threats are liable to emerge unless the western powers take forceful and timely action to nip them in the bud. Iraq, say most Americans, poses just such a threat. Most Europeans think the opposite. They say that September 11th has clouded the judgment of the superpower, which like Gulliver has embarked on a programme of blundering adventurism and must now be calmed or tied down by the good little people of

Lilliput. Iraq, on this view, provides a perfect test of whether the little people can tether the giant.

Institutions come second. The argument over Iraq has come just when NATO, the EU and the UN are making delicate adjustments. Since the melting away of the Soviet threat it was set up to guard against, NATO has been striving to find a new reason to stay together. The European Union is amending its rules and learning the changed politics of a club that is expanding from 15 to 25. No formal change is under way at the UN. But the Security Council, designed to deal with the stalemate of the cold war, is now being tested by America to see whether it will help or hinder the superpower against the emerging threats of terrorism and weapons proliferation.

This is the fragile landscape over which assorted statesmen have chosen in recent days to clomp with their hobnailed boots. France's president is clomper-in-chief. Mr Chirac justifies blocking a second resolution on Iraq by arguing that it is a noble thing to avert a needless war. And so it is—if the war is needless and a credible alternative exists. But Mr Chirac, unlike Mr Schröder, still accepts that war might be necessary, at some point. He seems chiefly interested in making sure that the point will be of France's choosing, not America's. This is not only a *folie de grandeur*, given that it will be American soldiers who will end up doing the fighting. It is also an unforgivable pose to have struck just when the threat of imminent military action might have extracted a last-minute change of heart from Mr Hussein. By proposing the “alternative” of more inspections, Mr Chirac has succeeded brilliantly in telling the dictator that his last minute is not nigh.

An inspector calls. And calls, and calls

Worse than this is the frivolous contention of France and others that increasing the number of inspectors is a serious way to disarm Iraq. It might be a way to prevent the Americans from going to war, which is a different matter. It might even be a way to “contain” Iraq, which is more debatable still, but also a different matter. But it is no way to implement the Security Council's oft-repeated instruction to Iraq to disarm itself. Mr Blix himself said in his first report to the Security Council that playing inspector hide-and-seek was not the way: under Resolution 1441 the inspectors' job is to accept and verify Iraq's surrender of its WMD paraphernalia. Far from surrendering any outlawed material, the Iraqis have denied that it exists.

To those who say it is not worth war to strip Iraq of its mass-killing weapons, any ruse that prevents fighting looks welcome. But Mr Chirac's campaign will probably not stop the war. And it has meanwhile inflicted collateral damage, not least on the very institutions in which Mr Chirac says he believes. These institutions had to change anyway to adjust to a changing world. But they did not have to change like this.

One victim is the EU itself. Though it was impolite of Donald Rumsfeld, America's defence secretary, to have dwelt with such high glee on the divisions between “old” and “new” Europe, he got it right. For many decades France and Germany gave the EU its sense of direction. But as only two countries in an EU that will soon number 25, they should not have pretended to speak for the rest. A fortnight ago the leaders of Britain, Spain, Portugal, Italy, Denmark, Hungary, Poland and the Czech Republic expressed solidarity with the American position. A week ago another ten European countries joined this gang of eight. Mr Chirac wants Europe to be a counterweight to the Americans. History may judge that he did the opposite. America, to adapt an old saying, may have called a new Europe into existence to redress the balance of the old.

Though it was impolite of Donald Rumsfeld to have dwelt so gleefully on the divisions between “old” and “new” Europe, he got it right

A second victim is NATO. With Germany and Belgium, France has tried to stop the 16 other members from responding to a Turkish request for help ahead of any Iraqi war. Snapping this most basic pillar of the alliance's defence arrangements has outraged the new members from eastern Europe. It can only strengthen the voices of those Americans who have long argued that Europeans will no longer fight for anything until they feel the blade at their throat—and that in matters of defence Americans must therefore depend upon themselves.

If Mr Chirac persists in blocking the new Iraq resolution that America and Britain are now seeking, he may be able to add the weakening of the Security Council to this hat-trick of own goals. He will not be able to stop the war: if Iraq does not disarm, the Americans will fight without such a resolution. For going it alone they will pay a price, no doubt, both during the war and in the rebuilding of Iraq that follows. But they will cite as justification both their own security and Iraq's dozen years of non-compliance with all the

previous resolutions. The only thing France will have achieved is to ensure that this American president will not trust the Security Council again.

When Mr Bush took the Iraq issue to the council in September, the unilateralists in his own administration were aghast. They shut up when it passed a unanimous resolution warning Iraq of serious consequences if it failed to comply. Now the perverse Mr Chirac looks set to prove their original point. A body which thinks that “serious consequences” spells “more inspectors” does not deserve to be taken seriously.

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China

Eating your lunch?

Feb 13th 2003
From The Economist print edition

China's economic success should be seen more as an opportunity than a threat

Reuters

Get article background

BUSINESSES all over the world have seen China gobble up the toy industry, and they now look on in horror as it does the same for shoes, fridges, microwaves and air conditioners. This country of 1.3 billion people has an apparently inexhaustible supply of workers, willing to work long hours for pitifully low pay. Boosted by its accession to the World Trade Organisation, China is sucking in foreign investment by the bucketload—last year, it became the world's biggest net recipient. How can anybody compete against this gigantic new workshop of the world?

There is no doubting the immense impact of a surging Chinese economy; or denying that for many, adjustment to the arrival of a new industrial goliath will be painful. But most of the economic fears that China arouses—that it will drive everybody else out of business, that it will always be super-competitive in everything, that it will cause mass unemployment—are plain wrong. They ignore all the benefits of China's growth. They also ignore elementary economics.

As scary as Japan

The world has been here before. In the 19th century, businessmen in many countries were convinced that Britain, the original workshop of the world, would steal their industries. Later, similar fears were expressed about the United States; as recently as the 1960s, the French were preoccupied with the economic *défi Americain*. Even closer parallels are the rise of Japan in the 1960s and 1970s and of South Korea in the 1980s and 1990s, both of which triggered worries about unfair competition. And remember Ross Perot's fears of a “giant sucking sound” as a low-cost Mexico hoovered up jobs from the United States after the North American Free-Trade Agreement?

At their crudest, such concerns betray an abject failure to understand the economics of trade. Trade is never a zero-sum game; it profits buyers and sellers alike. It depends for its benefits not on competitive advantage, but on comparative advantage, a crucial distinction. Thus China may indeed be a cheaper place to manufacture everything than, say, Japan. But that does not mean that all manufacturing will or should shift from Japan to China. The central insight of trade theory is that, in such a situation, both countries will gain from specialising in goods in which they hold a comparative advantage (China in low-end manufacturing, Japan in higher value-added goods and services, say) and then trading with each other.

It is also easy for pessimists to overstate the magnitude of the problem. For all its rapid growth, China's share of world trade is only around 4%—about the same as Italy's. Its trade surplus, at around $30 billion, is similar to Canada's and smaller than Japan's, Germany's or even Russia's; and it has been shrinking. Although China has a big bilateral surplus with the United States—as which country does not?—it is running bilateral deficits with most of its supposedly threatened neighbours, including South Korea, Malaysia and Thailand.

Those deficits point to another factor that the fear-of-China brigade tends to ignore: the country's potential as an export market. Especially when other economies are stuttering, China's contribution to

world demand is vital. Its share of world GDP, properly measured, is 12%; but its share of world GDP growth last year may have been as high as one-third. Although much foreign investment in China is aimed at exports, even more is intended to satisfy domestic demand. Far from being flattened by Chinese exports, the rest of East Asia is seeing fast-rising higher-value exports to China. Volkswagen counts China as its second-biggest market for cars after Germany. Legend Group, China's biggest computer-maker, is mostly supplying rising domestic demand. As WTO membership opens China's markets to competition, its importance as a source of demand will grow.

None of this is to say that China's rapid industrialisation will be problem-free for other countries. The shift from lower to higher value-added activities that it necessitates can be painful for companies and workers alike. It will be especially hard for the East Asian tigers that have only recently moved into low-end manufacturing. And some specific factors may obstruct China's own economic adjustment—and thus impose a bigger burden of adjustment on others.

When a country's economy grows fast and its businesses grab markets from rivals, either real wages rise to match rising productivity, or the exchange rate starts to appreciate, or both. Japan and South Korea experienced both. The effect is to erode an initial cost advantage and to ease the burden of adjustment in other countries. But in China's case, the pool of underemployed labour in the countryside and in inefficient state-owned enterprises is so vast that real wages may rise only slowly. Meanwhile, its exchange rate is fixed against the dollar, and protected by capital controls (see article).

Little can be done about real wages, although in practice it is certain that, even in China, they will eventually rise in line with higher productivity—as they have always done elsewhere. The exchange rate is trickier. China's price deflation and the dollar's weakness mean that the yuan is actually depreciating in real terms (though it is nonsense to accuse China of exporting deflation: its cheap exports are changing relative prices, not generating deflation overall). Some have urged China to scrap capital controls and float the currency. To do so immediately would be to invite a financial crisis, as China's banks, laden with bad debts, would collapse under the strain. A better idea would be to repeg the exchange rate at a higher parity, and move towards phasing out capital controls only after the banks' bad-debt problems are resolved.

A billion blessings

The focus, though, should not be on such obstacles, but on the great benefits of China's growth. Millions of consumers in other countries are gaining from the low prices and high quality of Chinese goods. A billion Chinese are escaping the dire poverty of the past. Businesses across the globe will profit from supplying a vast new market. These are wonders to be celebrated, not threats to be agonised over.

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Energy and the environment

A greener Bush

Feb 13th 2003
From The Economist print edition

George Bush deserves praise for his recent environmental moves—but he could be bolder still

Getty Images

"THE American way of life is not up for negotiation." That was the stance struck by the elder George Bush at the first Earth Summit in Rio de Janeiro in 1992. He was responding to the thousands of green, anti-capitalist and other activists who were claiming that the United States, then as now the world's biggest energy consumer, was also its biggest polluter. That makes it all the more striking that his son has just proposed environmental policies that, he says, will "fundamentally alter the American way of life in a positive way."

In recent days, Mr Bush has unveiled a vision of a clean-energy future based on two ideas: promoting hydrogen and constraining carbon. His administration has declared its unqualified support for a shift from the internal combustion engine to fuel cells, which use hydrogen to produce energy without harmful emissions (see article). And this week it gathered a group of industrialists in Washington to declare their support for Mr Bush's policy of pursuing voluntary cuts in emissions of greenhouse gases as a way of responding to climate change.

Mistrustful environmental groups immediately denounced both policies as chicanery. By talking up a hydrogen future that may be many years away, they argued, the president was seeking to distract attention from short-term measures, such as the corporate average fuel economy (CAFE) law that dictates car fuel-efficiency standards. They point accusingly at the fact that Mr Bush's vision of hydrogen energy allows the continued use of fossil fuels such as coal—albeit in a cleaner way, by "sequestering" the carbon emissions—and at the support he has received from the oil and car industries. As for climate change, they insist that Mr Bush, who summarily rejected the Kyoto Protocol two years ago, cannot be trusted to push his industrial friends into accepting enough voluntary cuts to make much difference to America's rising emissions of greenhouse gases.

Outflanking the greens

The environmentalists are wrong to be so sceptical. Mr Bush is unlikely ever to be a born-again green—or so we must hope—but there is no reason to dismiss his ideas for a shift to clean hydrogen just because car and oil companies may benefit. Their support is necessary if hydrogen is ever to take off. The shift from internal combustion engines to hydrogen fuel cells envisaged by Mr Bush could eventually lead, in the words of a senior administration official, to a "low-carbon energy system" in America. Moving away from CAFE would be welcome in itself: it is an overly bureaucratic, inefficient law whose objectives would be better achieved through the tax system. So far as climate change is concerned, economical cuts in greenhouse-gas emissions are surely to be welcomed, notwithstanding the continuing controversy over the urgency of tackling the problem (see article).

Even so, if Mr Bush is to burnish his green credentials, he needs to do more to turn fine visions into practical actions. He has given a glimpse of the right strategy by declaring that "we have a chance to move beyond the...command and control era of environmental policy, where all wisdom seemed to emanate out of Washington, DC...we can move beyond that through technology." He is spot on in denouncing an overly centralised approach to greenery, and in pushing instead for market-based

solutions. The success of pollution taxes in Europe and of emissions-trading systems for sulphur dioxide in America show that these are a far better way of encouraging innovation than technology mandates or direct subsidies.

On hydrogen, Mr Bush has offered much talk and $1.2 billion in public money. That is unlikely to be enough to spur industries with hundreds of billions of dollars in sunk assets to think of shifting to hydrogen—especially when petrol is so cheap. On climate change, his insistence on a voluntary approach alone runs counter to the experience of the past decade, when greenhouse-gas emissions have continued to rise despite a string of voluntary initiatives to reduce them.

The best way forward, on fuel cells as on climate, would be through the use of taxes. A higher petrol tax, or better still a tax on all carbon emissions, would mean that the full cost to the environment and human health from the use of petrol (and other fossil fuels) was reflected in the price. Unlike the CAFE law or any other central target, taxes of this kind would encourage the development of cleaner energy without biasing energy users in favour of any specific technologies or energy sources. Best of all, Mr Bush could use the extra revenues to finance tax cuts elsewhere, or to trim looming budget deficits. An intelligent green policy that improves America's fiscal position—now that really would be visionary.

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Road pricing

Traffic decongestant

Feb 13th 2003
From The Economist print edition

Charging is the right way to go, even if London's scheme is flawed

Guardian

THREATEN a man's freedom to drive and you strike at the core of his being. Anybody who doubts that has not been to a London dinner party lately. In the run-up to its introduction on February 17th, the congestion charge has overtaken the war as a topic of conversation and a cause for complaint.

From February 17th, drivers entering an eight-square-mile patch bounded by Park Lane, Euston Road, Commercial Street and Vauxhall will have to pay £5 ($8) between 7am and 6.30pm on weekdays. Ken Livingstone, London's mayor, hopes to cut traffic by 15%, leading to a 25% reduction in traffic delays. The net proceeds—expected to be around £120m a year—are to be used to improve public transport.

Other cities have tried similar schemes, but nothing on London's scale. It is a measure of the city's desperation that a socialist mayor is introducing a practice—road pricing—normally advocated by free-market rightwingers, from Adam Smith in 1776 to Milton Friedman in 1951. Mr Livingstone is brave. If the scheme works, it will be taken for granted, and if it fails, he will probably lose the next mayoral election.

All over the world, people are finding themselves increasingly bogged down in congestion (see article). Governments can either choose to leave people fuming in their cars (which wastes people's time and pollutes the air) or they can ration road space by regulation or by price. Regulation—banning people from driving in certain areas at certain times—is relatively clumsy. Rationing by price is more efficient because it allocates road space to those who value it most.

Charging people for new, fast roads (the French autoroutes, for instance, which were built alongside crowded *routes nationales*) is uncontentious. But governments fear that if they introduce charges on existing roads, drivers will revolt at the idea of paying for something they have been getting for free. The Dutch, for example, have been discussing a scheme for crowded motorways for years, but no coalition government has ever felt that it could hold together in the turbulence that would follow such a radical scheme. Even in highly disciplined Singapore, home of the most sophisticated road-pricing system in the world, citizens have had to be cajoled into accepting the latest flexible charging system with reductions on other motor taxes.

Still, if congestion charging can work anywhere, London is probably the place. It is the most congested part of Europe's most congested country. Since the idea of a motorway box inside the city was abandoned because of local opposition in the 1960s, nobody has put forward a better idea for what to do. And Mr Livingstone can claim a mandate to try congestion charging: it was part of his pitch to the voters before he was elected two years ago.

Some criticise the charge on the grounds that it is a flat tax, and therefore regressive. That doesn't wash. Most weekday drivers in central London are affluent. Poorer people tend to use the public transport systems that will benefit from extra spending. Other critics complain that the charge is unfair on particular groups—small businesses, for instance, and parents living just outside the zone who find themselves paying £25 a week just to take their children to school. That's true, but if the overall effect is good enough, it is worth a bit of injustice.

Don't give up

There are more serious grounds for worry. The crude technology, based on cameras reading number-plates, may not work. The charge may have little impact, since people who have company parking-spaces or are prepared to pay parking fees of as much as £20 a day will hardly balk at another £5. If it makes a difference, it is likely to divert cars from central London (where the traffic is already inhibited by high parking charges) to areas that are even more crowded outside the zone.

Even some of those who support road pricing argue against Mr Livingstone's scheme on the grounds that its flaws could lead to failure, and that if it is abandoned it will set the cause of road pricing back by ten years. But if it does not work at first, the correct response is not to give it up, but to change it—raise the charge, widen the area it covers, switch to better, satellite-based technology, which would allow flexible charges everywhere within the M25 motorway encircling London, and indeed on that overcrowded motorway too.

With their awful commuter trains and creaking underground, Londoners are used to failures in their transport system. That is no reason to shirk a bold attempt to make things better, nor to retreat if it does not work at the first go.

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Letters

Feb 13th 2003
From The Economist print edition

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The case against war

SIR – Why have George Bush, Tony Blair, Colin Powell, Jack Straw, *The Economist* and other assorted worthies not even nearly convinced me that war against Iraq is desirable, even if a "smoking gun" is found ("Burden of proof", February 8th)? I do not doubt that Saddam Hussein is an evil and brutal man, who has been leading the United Nations weapons inspectors a merry chase. I have few doubts that he has chemical and biological weapons stashed away somewhere. But none of these is a *casus belli*.

Anthony Ralston
London

SIR – It is insulting to state that those of us who oppose a war with Iraq "prefer to shut their eyes to future danger" ("On the brink of war", February 1st). We have our eyes wide open and see the possibilities of future danger very clearly. We simply believe that the negative effects of a war, including many thousands of civilian casualties and the likelihood of increased terrorism, are worse than the future danger. One could just as easily say that *The Economist* prefers to shut its eyes to the likelihood that thousands of innocent Iraqi civilians will be killed. That, of course, is not true and therefore not worth saying—just as the quote above is of no value.

Gilbert Herod
Carmel, Indiana

SIR – You cite NATO's intervention in Kosovo as a precedent for the West invading Iraq without Security Council authorisation. The analogy is inappropriate. NATO bombed Serbia to prevent genocide, not to destroy an unproven threat to western security. Slobodan Milosovic fell from power not because of NATO bombs but because of his subsequent attempt to amend the constitution to give himself another eight years in power. Ironically, were Mr Bush and Mr Blair proposing a "regime change" war with Iraq on Kosovo-type humanitarian grounds—albeit without UN authorisation—then there would probably be more public support on the left, if not on the right.

Joseph Palley
Richmond, Surrey

Mexico's seat

SIR – You mention that "for the first time Mexico sought (and won) a seat on the UN Security Council" ("A maverick departs", January 18th). Mexico has had a seat on two previous occasions. The first was after the organisation officially came into existence in 1946; the second in 1980-81.

Alma Rosa Moreno
Mexican ambassador
London

Fair copy

SIR – Copy protection is a blunt instrument that lets publishers limit how you can use a work ("A radical rethink", January 25th). When copying content had the cost structure of the printing press—high set-up

and low marginal costs—copyright made sense. Copying was almost entirely done in large batches making temporary monopolies efficient and natural. Reproduction was clearly a commercial act and was hard to conceal. Prohibiting copying did not limit consumers' actions much. Each of the three parties—creators, publishers and consumers—knew they needed the other two, so the social contract was clear and widely supported.

Digital distribution removes the high set-up costs and everything else changes with it. Copying is practical and often done in small batches without a commercial purpose. Creators and consumers still need each other but the publishers' primary business activity, making physical copies, is no longer necessary. Consumers often face situations in which the law prohibits actions they would otherwise take and support for the old social contract is crumbling. We have no obligation to preserve obsolete business models or industries. Eventually, a new social contract and economic model will emerge but until we have a consensus about what the contract is, we will not know what laws will support it.

Dan Upper
Corvallis, Oregon

SIR – You suggest that legal backing should be provided for copy-prevention technology in return for a shorter term of copyright. However, if the means to copy a work are unavailable then the public can never make a copy, regardless of legal status. “Fair use” is eliminated and copyright is effectively perpetual.

Nobody has yet produced an effective copy-prevention system but this will change. Computers will be fitted with a device that will refuse to decrypt films or soundtracks unless the player program has been authorised by the publisher. Future laws must not just set limits on copyright, they must also set limits on copy prevention. Once a work is no longer in copyright the publisher should be required to make unprotected versions available. If we do not limit the scope of copy-prevention technology then we face a world where individuals can only gain access to information at the whim of its creator.

Paul Johnson
Chelmsford, Essex

Big v small

SIR – Charlemagne makes a strong case for giving Europe's big countries more voice in forming European Union policy (January 25th). However, bigness confers power but it does not confer rights. Democracy is not purely about majority rule, it is about protecting the rights of the minority. The mechanisms in some international institutions, including the EU, can allow a handful of “smalls” to obstruct things, not always for the greater good. However, most smalls are as concerned about the world's greater good as any big country. From a small in Asia, three cheers for the smalls of Europe. Best of luck in your efforts to ensure that the EU represents the interests of all Europeans.

Mark Speece
Bangkok

Staying in London

SIR – Your article on investment banking includes a quite extraordinary assertion: “some American investment banks are now talking about pulling out of London entirely: Goldman Sachs is the name most often churned out by the rumour mill” (“Goodbye to the city”, February 8th). Let me be very clear. Goldman Sachs has absolutely no intention of leaving London. London has been central to the global success of this firm. We have some 4,000 people based here and our business has been consistently profitable. Goldman Sachs intends to be a major presence in the City of London for many years to come.

Peter Weinberg
Chief executive officer
Goldman Sachs International
London

Naked ambition

SIR – What sort of belligerent policies do I have to espouse to persuade 30 or so naked women to

demonstrate against war on the grass outside my window ("Emperor, shedding clothes?", January 18th)? Although the article which the photograph illustrates concerns public opinion in America, the scene looks very like the South Downs in southern England, near where I once lived. Would you be kind enough to print an enlargement in a subsequent issue; I may discover that I know some of the protesters.

Philip Inman
Debrecen, Hungary

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Dealing with Iraq

When squabbling turns too dangerous

Feb 13th 2003
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Far more lies behind Europe's disarray than honest disagreement

Get article background

“THERE are moments in history when the judgment and resolve of free nations are put to the test. This is such a moment.” America's defence secretary, Donald Rumsfeld, is quite right: this is such a moment. As protesters planned their marches in cities across Europe to oppose a war with Iraq, and as the United Nations Security Council awaited another report on Iraq's behaviour from Hans Blix, its chief weapons inspector, a huge international row still raged over what best to do.

Dealing with Iraq's weapons of mass destruction is straining the transatlantic alliance, NATO and the European Union as few other issues have done. Yet it started with an apparently unanimous resolve to press Iraq to disarm. How did the would-be disarmers end up at each other's throats?

On the surface, the dispute is a practical one. All agree that Iraq must be parted from its weapons of mass destruction. Resolution 1441, passed unanimously by the Security Council in November, proclaimed Iraq in material breach of the obligations to disarm imposed on it 12 years ago after the Gulf war. But it gave the regime of Saddam Hussein “a final opportunity” to comply. Failure to do so would bring “serious consequences”: meaning, in well understood diplomatic code, disarmament by force.

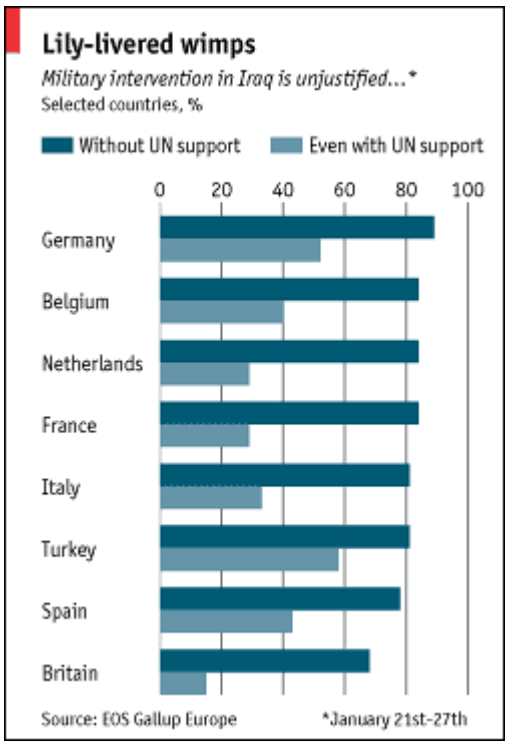
But that was already an uneasy compromise. It spanned those, including a number of President George Bush's senior advisers, who assumed Iraq could not be disarmed except by force; those, like Britain and now an increasing number of other European governments, who were ready to see force used if Iraq refused to disarm; those prepared to go along with the threat of force in the hope that Iraq would finally cave in (or Mr Hussein would be dislodged from power) without a shot fired; and those who went along with a tough resolution only because they did not want to see the UN's credibility damaged by unilateral American action. These last two groups overlap considerably and appear, for now, to include France, Germany, Russia and China.

Ever since Mr Blix first reported back to the council on January 27th, when he concluded that Iraq “appears not to have come to a genuine acceptance...of the disarmament that was demanded of it,” its unity has dissolved. America and Britain argue that without immediate and full compliance, Iraq will be in further breach of its UN obligations, and force must be applied. But France and Germany, abetted by Russia and China, are digging their heels in.

“Project Mirage”, indeed

This week, at the UN, France circulated a “non-paper”—not a draft for a new resolution, but an attempt to embellish the existing one. It was a cut-down version of a supposedly “secret” French-German plan that was leaked, to huge consternation, during an informal security meeting of senior American and European officials in Munich last weekend. The proposals recommend, as an alternative to war and a way to contain Iraq, a doubling or tripling of the number of inspectors there at any given time; extra surveillance aircraft, to be sent by France and Russia; extra experts and translators; and more personnel not just to secure the inspectors' bases, but to monitor and “freeze” sites under inspection. All these enhancements, the paper said, would “compel Iraq to co-operate.”

Germany, not a veto-wielding member of the council but its current chairman, claims to have done a head-count and found that 11 of the 15 council members support extending inspections, rather than resorting to force. Possibly. Plenty of diplomatic arm-twisting remains to be done before a decision is made on any further resolutions, and the White House declared on February 12th that it was busy discussing the wording of a new one. Of the 15 council members, only five hold a veto (America, Britain, China, France and Russia). In order to pass, any resolution must win nine votes and no vetoes. And though Russia and China have aligned themselves with France and Germany for now, arguing that all peaceful solutions must be tried first, neither is as rock-solid as France and Germany might like.



What is more, say American officials, obvious logical flaws bedevil the French proposals. How, for example, might Iraq be made to disarm by peaceful means, when peaceful means have so patently failed over 12 years and 17 previous resolutions? “Project Mirage”, the name France gave to its new proposals, was quickly dismissed by both America and Britain as just that.

Jack Straw, Britain's foreign secretary, says such ideas are a fundamental misreading of Resolution 1441. The onus is on Iraq to disarm, not on the inspectors to catch him out; and if he maintains his refusal to co-operate, how will higher numbers help? Such proposals, claimed Mr Straw, “represent the clearest admission yet that Iraq is not co-operating.”

Mr Blix agreed this week that Iraq's non-readiness to disarm remained the nub of the problem. He summoned missile experts to try to determine whether recent Iraqi goings-on, including the importing of missile engines and the testing of missiles beyond permitted ranges, offended against Resolution 1441. They decided they did. Iraq has now handed him more documents about its chemical and biological efforts, though there is said to be nothing new in them, and has agreed at last to let U2 intelligence-gathering aircraft fly over Iraq, as Resolution 1441 demanded. But although the inspectors welcome such signs of willingness on procedure, they still need active co-operation on substance: that is, full disclosure of all weapons, materials and documents. If Iraq fails to change on that score, Mr Blix's report is unlikely to get it off the hook.

That has not stopped France and Germany claiming that inspections are having some effect. Hence their argument, likely to be made again after Mr Blix presents his report on Friday, that with more time and more powers for the inspectors, even better progress could be made.

The deeper trouble

All this could be seen as nothing more than an honest, if deep, disagreement among friends. But the pitch of anger in this debate proves there is much more to it than that.

France and Germany were incensed when, two weeks ago, Britain, Italy, Spain and a clutch of other European governments (followed by ten more from eastern and south-eastern Europe) affirmed their backing for America. Since the EU had issued a joint, and more restrained, statement on Iraq only a few days earlier, this was seen as treachery in Paris and Berlin.

Yet the move to support America was itself a response to events that seemed, to others, to be aimed at sabotaging the effort to put pressure on Iraq. First came the decision—made by Germany's chancellor, Gerhard Schröder, without consulting anyone else—to rule out any German participation in military action, even under a UN mandate. Then followed the long weeks of negotiation at the UN, in which America bent over backwards to bring the French and others along with Resolution 1441, only for France's president, Jacques Chirac, and Mr Schröder to try their sudden joint blocking manoeuvre.

In fact, both governments have genuine concerns about the course of American policy. Unlike Germany, France has not ruled out the use of force entirely, but like Germany it worries about the effect of a conflict on the fragile Middle East, about the economic impact at home, and about hostility to a war among Muslims, 4m-5m of whom live in France.

Until now, France has always relished facing down America more than Germany has. But Mr Schröder, too, has recently stressed to his party followers that the spat can be seen as an issue of “European sovereignty”—in other words, whether America alone should be able to determine the course of events. France and Germany both worry about America's claim to a right to pre-emptive action to deal with new threats from terrorism and weapons of mass destruction.

Until now, France has always relished facing down America more than Germany has

It was Mr Schröder, however, who leaked the news that he was working with Mr Chirac on new proposals designed to avoid the use of force in Iraq. Unfortunately he leaked it to the press before consulting either the Bush administration or his other allies on its substance, or evidently his own foreign minister, Joschka Fischer, on the timing, thus causing maximum offence all round. He then further angered eastern European governments, who will soon be joining both NATO and the EU, by including the Russians (whom many of them still distrust) in his consultations in preference to them. As one western European official summed up the European end of the row this week: “France and Germany do not seem to realise that their claim to leadership in Europe does not extend to foreign policy.”

Thus a scheme that Mr Schröder had hoped might put Germany back closer to the mainstream, by coupling it with France and Russia, appeared to backfire. His mishandling of the French-German plan on inspections, combined with Germany's refusal, along with France and Belgium, to let NATO begin planning to defend Turkey in a war with Iraq (see article), has brought down a barrage of criticism, both from his conservative opponents in the Bundestag and from virtually all sections of the German press. Although the Germans largely oppose a war, they also, unlike the French, have long thought kindly of America, Germany's close ally and chief defender during the cold war. NATO and the EU, now badly divided by the row, are central to Germany's view of where it fits in the world. There is now a growing chorus for Mr Schröder to step down for his poor handling of both Iraq and Germany's sickly economy.

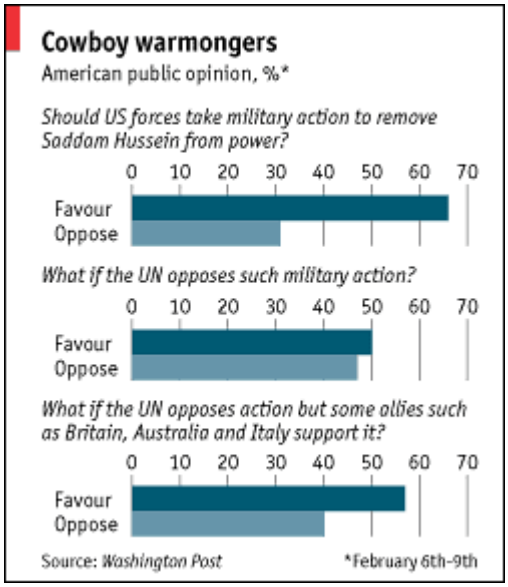
France's game

Mr Chirac faces no such pressures. On the contrary, he seems determined to press his argument with America to the hilt. He insists that the argument is really about ensuring that the UN retains the ultimate say over how to deal with Iraq. But that claim is starting to ring increasingly hollow. Having subscribed to a tough resolution that was meant to pile pressure on Iraq, Mr Chirac's attempts to vary the inspection regime and to shift the onus on to the inspectors releases some of that pressure and makes the Security Council look indecisive. If France presses its opposition to the point of vetoing any effort to back up Resolution 1441 with force, then America will probably bypass the UN altogether, making it look feebler still.

Until now, France's allies in NATO have seen it as a “bad-weather friend”—carping and difficult over many things, but ready to help out in a crunch. But Mr Chirac, who seems to have taken day-to-day control of France's diplomacy on the issue, appears to see this dispute as a personal mission to clip America's wings. He might have got away with that if the rest of Europe had rallied to his cause. But most of it hasn't. As American officials have been quick to point out, Europeans are more divided among themselves than Europeans and Americans are.

Those less inclined to believe in Mr Chirac's self-professed high-mindedness see France as merely a spoiler. They note that France and Russia both have considerable economic interests in Iraq. Russia is owed some $8 billion in past debts. And both French and Russian companies have been striking oil deals with Mr Hussein's

regime, although agreements cannot be implemented while Iraq remains under UN sanctions. This week Iraq cancelled a production-sharing agreement with Lukoil, a Russian company, possibly in retaliation for earlier comments by President Vladimir Putin that Russia could yet toughen its stance if Iraq hampered the weapons inspectors.



American officials, for their part, worry that France, Germany and Russia want to prolong inspections in Iraq as a way of simply avoiding the “serious consequences” of Resolution 1441. They are also genuinely put out and frustrated that, having listened to their European allies, including the French, and tried to deal with the Iraq problem multilaterally through the UN, Messrs Chirac and Schröder now appear to be trying to sabbotage these efforts. Other Europeans worry too that by raising the costs to America of operating multilaterally, the French and Germans are undercutting America's chief multilateraliser, the secretary of state, Colin Powell, and reinforcing the arguments of those in the Bush administration who have long held that operating through the UN, and even NATO, crimps America's freedom of action. That hard-line camp, with Mr Rumsfeld at its head, feels pretty well vindicated now.

The damage to European and European-American ties will not be quickly mended. Greece, which currently holds the presidency of the EU, has called an emergency heads-of-government summit next week, to try to bring Europe back to a common position on Iraq. Unless Europeans can manage that, they will not be listened to, goes the argument. But there is little sign that the squabbling countries can be induced to agree. And America has made it clear that there are some European voices it is getting quite tired of hearing.

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The row in NATO

A fractured alliance

Feb 13th 2003
From The Economist print edition

The battle of Brussels, 2003

Get article background

EVER since the cold war ended, critics have demanded to know what NATO is really for. Now many of the alliance's own members are wondering too. At its Prague summit, in November, the “most successful alliance in history” appeared to reinvent itself for a new future. It anticipated a global role to help face threats from terrorism and weapons of mass destruction; the capabilities such a get-up-and-go outfit might need; and new recruits from eastern Europe as well as a partnership with Russia. Now NATO has stumbled badly, not over these fresh and difficult responsibilities, but over a core treaty commitment: to offer help to an ally, Turkey, that feels under threat.

The row, at the start, was about when NATO should start organising defensive measures—sending Patriot air-defence missiles, AWACS surveillance aircraft and anti-chemical and biological protection units—to protect Turkey in the event of a war in Iraq. Planning had been held up for weeks as France, backed by Germany and Belgium, argued that this would lock NATO into a “logic of war”. Then on February 12th, the three objectors turned down a compromise. Though 16 fellow alliance members, out of 19, have no problem with the planning, it is scuppered for the moment. America's ambassador to NATO said this week that the organisation faced a “crisis of credibility”.

NATO as an alliance will not be involved in any conflict in Iraq. It was hoped that the defensive measures planned—including protection of American bases in Europe, and the provision of extra troops for Balkan peacekeeping in America's place—would pass through on the nod. When formal objections were raised, Turkey, which will be on the front line should hostilities break out, had little choice but to invoke Article 4 of the NATO treaty, obliging all allies to consult if any one of them feels threatened. But the objectors refuse to budge, at least until after Hans Blix, the UN's chief weapons inspector, reports to the Security Council on Friday.

Prudent planning for the protection of Turkey is not a declaration of war, the other allies have argued, but a treaty obligation. Germany, itself once a front-line state, relied on such protection. Turkey has long acted as a “shield for all of Europe”, its prime minister pointed out this week, and should be given the help it has asked for. France is anyway already making its own military preparations, as are the European Union and the UN—in their case, for relief efforts after a war.

Germany, France and Belgium have all expressed solidarity with Turkey; they just refuse to do anything about it yet. But that elevates a “technical” issue to the point where alliance solidarity is threatened. Europeans wanted America to consult NATO more after the September 11th attacks, when the alliance had invoked Article 5, committing it to help defend an ally under attack. Now that America is doing its best to work through NATO, why cause it to think again?

And the damage does not stop there. Part of the effort to produce new military capabilities, both for NATO and the EU, requires countries to pool resources in ways they have not done before: to provide planes to get troops quickly to trouble-spots, and smart communications and weapons for them to use. But relying more on others requires confidence that everyone will be there on the day. Germany, France and Belgium have undermined that confidence, perhaps fatally.

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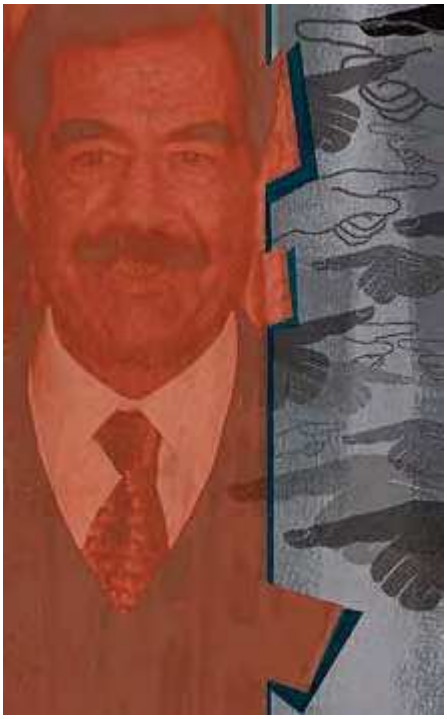
The view from elsewhere

We'll help, but um...ah...

Feb 13th 2003 | OTTAWA, SYDNEY AND TOKYO
From The Economist print edition

Three friends of America try to get their act together



THE war of words between bits of Europe and America, and of Europe with itself, has become so all-involving that farther-flung interested parties are often forgotten. Yet America has other allies in this debate who are struggling to decide what best to do. We consider the chief three, Australia, Canada and Japan: none of which, as it happens, has a seat on the UN Security Council.

So far, **Australia** is the only significant country, besides Britain, to have sent forces to the Gulf in support of a possible American attack. In a place so far away from Iraq, with a small defence force already stretched by regional commitments, the deployment has caused great controversy. A recent poll showed 60% of Australians opposed to sending their troops, with only 35% in favour; 76% were against Australian involvement in an attack on Iraq without United Nations approval; and a less-than-overwhelming 57% supported a strike sanctioned by a second resolution.

This rebuff has shaken John Howard, the prime minister, who has backed George Bush and Tony Blair unquestioningly. Traditionally, Australians have tended to trust their leaders over when, and whether, to commit forces abroad. Australia has sent troops to back Britain and America in almost every conflict from the first world war to the 1991 Gulf war, mostly with public support. The Howard government announced the deployment of aircraft, ships and 2,000 troops to the Gulf in late January, when Australians were distracted by summer holidays and bushfires. Simon Crean, the Labor Party opposition leader, promptly told the departing troops they should not be going.

But opposition to Mr Howard is coming equally from his own conservative Liberal Party. John Valder, a former party president, recently wrote to a Sydney newspaper suggesting that “Washington needs a regime change as much as Baghdad.” Since then, Mr Valder says he has had an “avalanche” of conservative support, much of it “quite ferocious”.

Mr Howard, usually one of Australia's most wily political operators, is now caught between his desire to bolster support for his government and his commitment to friendship with America, the cornerstone of Australia's foreign policy. His government, he says, has not yet made a decision to commit the deployed forces and could still withdraw them. Few believe him. On February 10th, during a visit to Washington that seemed to confirm Mr Howard, to his detractors, as a man marching to America's tune, Mr Bush made it even harder for him to back out when he said he regarded Australia as a member of the “coalition of the willing”. Mr Howard is hoping desperately for a second Security Council resolution to save him.

In **Canada**—America's biggest trading partner, but also a country viscerally unwilling to be seen as a mere adjunct to its neighbour—roughly the same divisions occur. An Ipsos-Reid poll of February 7th shows that only 28% of the public would support action against Iraq without a second UN resolution, while 67% would disapprove of it. On the other hand, 60% accept that Canada should provide military assistance if the UN sanctions action.

The government of Jean Chrétien, having long insisted that a second resolution was needed, now seems

to be shifting to America's side in any event. Canadian forces are hovering already. Two frigates are patrolling the Gulf of Oman as a residual part of the Afghanistan operation, and two others are on their way to relieve them. A Canadian commodore has been put in charge of “coalition” naval forces in the Persian Gulf, and 25 senior Canadian officers have been installed to help the Americans in Qatar. Senior army officers are keen to send a 3,000-strong brigade under Canadian command, or Canada might sneak a compromise by sending more troops to Afghanistan, thus freeing American soldiers for Iraq.

A decision to back America without a second resolution would probably split Mr Chrétien's own Liberal majority. As a lame duck, who has already laid out the road-map to his retirement, he cannot hope to hold his troops in line, especially with the public so opposed to unilateral action. His likeliest successor, Paul Martin, has cleverly avoided committing himself. Nonetheless, Canada seems unlikely to do as it did in the Vietnam war, when it abstained from giving America a hand.

Compared with Canada and Australia, **Japan** has faced few tough questions over Iraq. Its pacifist constitution ensures that its military role in any intervention will be indirect and limited. (In the Gulf war, it did nothing.) Japan need not help America plan ahead for war. Given that, the prime minister, Junichiro Koizumi, and his team have been surprisingly supportive of the United States. They would like a second resolution, but they also keep hinting that Iraq's actions warrant an American attack.

Mr Koizumi will face harder choices, however, if and when the United States uses force. Should he help by sending ships? He might. After September 11th 2001, Japan's parliament passed laws that allowed several supply ships and escorts to go to the Indian Ocean to support, indirectly, the campaign in Afghanistan. It recently replaced one of those escorts with one of Japan's four Aegis-class destroyers, an even bolder move.

Sending more ships to the Indian Ocean, technically as part of the Afghanistan effort (what might be called the Canadian option), would free American and other vessels for a military campaign in Iraq. It would also be a tangible endorsement of any American-led attack. Security experts in Tokyo reckon that Mr Koizumi could do this simply by getting the cabinet to rewrite the existing mission plan for Afghanistan, with no need for new legislation. A new law would meet stiff resistance, and probably could not be passed in time anyway.

How would the Japanese public take that? In a late-January poll by the *Asahi Shimbun*, a big daily, 62% said they opposed an American attack. But when asked what they would think if the Security Council approved, a majority—52%—said they would back the use of force.

North Korea's threat to go nuclear will also shape the debate. Those who oppose helping America will try to turn the tension to their advantage. Why pull more ships away from home when a greater menace lies just across the Sea of Japan? But precisely because of that fearsome neighbour, Mr Koizumi may find it easier to win public support for Japan's closest ally—and its only real line of defence.

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America and terror

Days of danger and duct tape

Feb 13th 2003 | NEW YORK AND WASHINGTON, DC
From The Economist print edition

AP

This week fear of another terrorist attack by al-Qaeda rippled through America's financial and political centres

IN NEW YORK CITY, uniformed policemen stand quietly outside hotels, concert halls and shopping centres. The air in subways and traffic tunnels is being tested for contamination. So is milk and fresh food. Streets leading into large buildings, such as Grand Central Station, have been closed. On others policemen pull over vehicles, particularly with non-New York licence plates, to question drivers. Bomb scares have reappeared in the city. It is all horribly reminiscent of the traumatic weeks after September 11th 2001.

Is the phoney war ending? The term refers to the uneasy period of calm that settled on Britain between the declaration of war in September 1939 and Hitler's invasion of France in May 1940. For more than a year, much of America has been in a comparable state of mind. A war has begun, but little is happening. Daily life will change, but has not yet begun to. Except during the anthrax scare after September 2001 and (different category) when the Washington-area snipers were on the loose, there has been little evidence of fear forcing its way into ordinary life.

But in the past week, a trio of events may have started to bring the war on terrorism closer to home. First, on February 7th, the administration lifted the colour-coded, terrorist-alert index from yellow (elevated) to orange (high). This was the second time the warning had been at that level (the last time was just before the Bali bombing). The colour codes have been widely mocked but this was, said, Tom Ridge, the head of the Department of Homeland Security, “the most significant” warning since September 11th.

Mr Ridge's department issued do-it-yourself home disaster-planning instructions, along the lines of “Buy a three-day supply of food and water”; “Get a battery-powered radio and extra cash”; “Seal up a room with duct tape and plastic sheets against chemical or biological attack.” In Washington, DC, Home Depot, a hardware chain, devoted a section of its store to Safe Room Supplies. Some shops in New York and Washington ran out of duct tape, bottled water, plastic sheets and batteries.

Next, on February 11th, the heads of the Central Intelligence Agency and the Federal Bureau of Investigation gave sobering testimony to Congress about al-Qaeda in America. Previous warnings had been of a general nature. These had details about weapons, timing and targets. George Tenet of the CIA

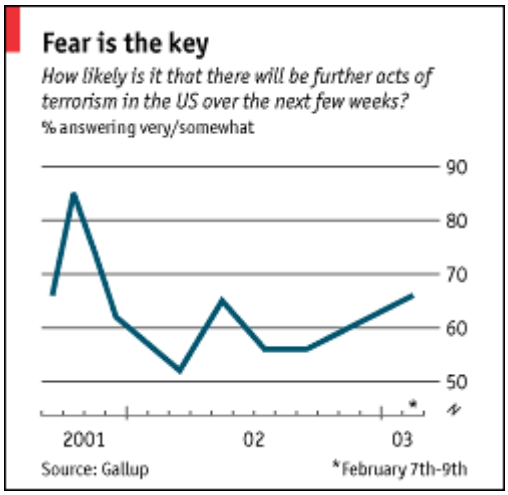
talked of al-Qaeda's efforts to build a “dirty bomb”, and use surface-to-air missiles and underwater assault teams. The FBI's Robert Mueller said hundreds of al-Qaeda recruits in America could be ordered to strike. He reiterated the criteria the group uses in selecting targets: high symbolic value, mass casualties, severe economic damage and maximum psychological trauma.

In Washington, anti-aircraft guns have been placed around the city and surveillance cameras are starting to appear in public spaces. In New York's two large airports, parking lots have been closed near terminals. The city's many churches, synagogues and mosques have been told that hiring private security guards would be a wise idea. Some have put up concrete barricades. An electronic network linking local doctors and emergency services, set up after the World Trade Centre fell, has gone on line. Cautious types have made sure that their wills and insurance policies are up to date. Dirty bombs, smallpox and chemical weapons have become common topics of conversation in offices.

The severity of the administration's warnings was partly influenced by an increase in the amount of al-Qaeda chatter intercepted by American surveillance, some of which talked of mysterious “packages” delivered to America in the past few weeks. And within hours of Messrs Tenet's and Mueller's testimony came another explanation for the chatter, and the third prompt for worry: a new audiotape, believed to be of Osama bin Laden.

Amongst other things, Mr bin Laden called on Iraqis to carry out suicide attacks against Americans. The tape did not single out mainland American targets. But the reappearance of the head of the organisation that Mr Tenet described as the greatest threat to America, along with everything else, stripped away in one moment the collective sense of relief that had accompanied the country's recovery from the attacks of September 11th.

The one opinion poll taken immediately after the new orange alert showed a big jump in the number of people expecting another terrorist attack on America (see chart). The number of people worried about becoming victims of terrorism is also at its highest level since October 2001.



Of course, public fears are much stronger in New York and Washington than the rest of the country. And such fears did ebb after September 11th, as scares ceased and the World Trade Centre site was cleaned up. But this week's sudden mood-shift is a reminder that insecurity about terrorism lies not far below the surface.

It is already having an impact. President Bush's two main domestic-policy proposals, Medicare reform and tax cuts, have run into trouble lately (see article). Yet his job ratings have risen. This suggests that, if there were another terrorist attack, the first effect would be another rally round the flag, rather than an episode of blaming the administration for failing to protect the public (which is what some Americans have suggested might happen).

There is also evidence that the balance between personal liberty and security may be shifting again. On February 11th, a federal judge increased the New York Police Department's powers of surveillance over religious and political groups. Since 1985, the police have not been allowed to attend a political or religious gathering without “specific information about criminal activity”. Now they merely have to show “a law enforcement purpose”.

The old restrictions, wrote Judge Charles Haight, may have hampered the police before the first bombing of the World Trade Centre in 1993. Certainly, he said, they are inappropriate now. His ruling is subject to appeal, but his words are striking: even if the change is “purchased at a cost to the values protected by the First Amendment,... [it] may be justified by the unprecedented current public dangers of terrorism.” The pit that once held the World Trade Centre is only a few blocks from the courthouse door.

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The draft

Warriors-by-numbers

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An old and much-loathed scheme resurfaces

THE last man to be conscripted into America's armed forces was called up on Valentine's Day 30 years ago. But the idea of the draft as a social equaliser lives on. In his recent call to renew it, Charles Rangel, an outspoken black Democratic congressman from Harlem, noted that few of his colleagues have children in the armed forces and that a disproportionate number of soldiers are black. Mr Rangel means mostly to make Americans nervous about war, and his words won't bring back conscription. But the idea that the draft was a useful tool for social engineering endures.

Military recruits these days are 20% black, a proportion that has held steady since 1979; in the general population, only 14% of 18-34-year-olds are black. By contrast, Latinos, America's largest minority, account for 11% of new entrants and for 15% of the population at large. Whites, too, are under-represented.

The relatively heavy proportion of blacks may be seen as a bad thing: a sign that blacks have fewer opportunities and end up with the most dangerous and gruelling jobs. Yet Colin Powell, for one, thinks their increasing presence both in the ranks and in the officer corps is a strong sign of success. For many decades, blacks were under-represented: a legacy of the segregation of the armed forces, which was not fully ended until 1954 and which excluded black volunteers in favour of white draftees. Few blacks served in Korea or the second world war. And although many remember Vietnam as a war fought disproportionately by blacks, it was not until 1972, near the end of the draft, that the proportion of blacks in the armed forces reached 11%, more or less their share of the population at the time.

The draft, in fact, did not do much for social levelling. Even during the peak Vietnam conscription years, far more soldiers were rejected for low test scores than were able to wriggle out of service—as Bill Clinton was accused of doing—through deferments for being at college. Many low-scoring applicants are rejected today (the army is a fighting machine, not a remedial school). But a new draft might further damage the chances of those volunteers with most to gain from military training.

The draft may also damage draftees' capacity to earn money afterwards in the civilian world. One comparison between the incomes of men with high lottery numbers (who were likely to be drafted) and those with lower ones showed that the conscripts earned about 15% less than they would otherwise have done, and that the difference persisted in every year they worked after they came home. Whatever his views about Iraq, Mr Rangel's aim looks off.

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The budget

Thanks a bunch, Alan

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The president's fiscal strategy is attacked by the Fed chairman

ONLY one week old and George Bush's budget is under attack from all sides. Much of the criticism is unsurprising. Democrats, for instance, are incensed both at his plans for more tax cuts and the proposals to reform social spending, such as health care for the poor. They accuse Mr Bush of dividing the country "by race and riches" at a time of war, with a budget that helps the rich and hurts the poor.

But the attacks cannot all be dismissed as partisan barbs. This week, Alan Greenspan, chairman of the Federal Reserve, poured cold water on Mr Bush's proposed tax cuts in his half-yearly economic report to Congress. Devoting much of his presentation to fiscal issues, Mr Greenspan warned about the risk of rising budget deficits and the importance of re-establishing fiscal discipline. Contradicting the assertions of White House economists, Mr Greenspan made it clear that he reckoned bigger deficits would raise long-term interest rates and hurt the economy.

The central bank chairman supported Mr Bush's main idea, eliminating the double taxation of dividends. But he insisted that such a reform should be "revenue neutral": the money lost by the government should be clawed back elsewhere. More damaging still, Mr Greenspan suggested that it was "premature" to have more fiscal stimulus now. The real brake on the economy, he reckoned, was the current geopolitical uncertainties. Politicians should wait until these were cleared up (ie, after the war is over) and then see if more stimulus was still necessary.

Given Mr Greenspan's pedigree as deficit hawk, these remarks are not surprising. Nonetheless, the respect he commands on Capitol Hill, particularly among Republicans, means his comments are a big blow to the White House. Mr Bush's tax plans have already had a surprisingly cool reception from many in his party.

In the House, Bill Thomas, chairman of the crucial Ways and Means Committee and generally an avid tax-cutter, has made sceptical noises about Mr Bush's plan. His disapproval may be partly territorial. Mr Thomas is keen to write his own tax law rather than simply push through Mr Bush's blueprint. The betting is that he will come round in the end, and something reasonably close to Mr Bush's plan will eventually pass the House.

The real problem, however, is the Senate. Several moderate Republicans there fretted publicly when Mr Bush's tax plans were first floated last month. Since then, deficit projections have worsened and the Bush team has added yet more tax cuts in the final budget. As a result, the chorus of concern about budget deficits is rising in the Senate. Mr Greenspan's comments will only strengthen those voices.

A clearly worried White House is now working hard to save an important part of Mr Bush's domestic agenda. Administration officials have been sent around the country to sell the tax plan. Despite imminent war, Mr Bush himself is to appear at several events promoting his tax cuts. The White House is also quietly pedalling backwards in several areas. Only a week after floating the idea of dramatically expanding tax-sheltered savings accounts, the administration has gone silent on the idea. There are some hints that the White House has given it up entirely. The Bush team is reworking several contentious proposals, such as the reform of Medicare.

Even after Mr Greenspan's intervention, the White House is still thinking big. "You're seeing the beginning of a process," says Ari Fleischer, Mr Bush's spokesman. "In the end the president believes that he will get much, if not all, of what he has asked Congress to pass."

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Winter in Alaska

Pining for snow

Feb 13th 2003
From The Economist print edition

The state is getting warmer and no one's happy

ALASKA'S Iditarod sled-race has not changed its 1,150-mile course in its 30-year history. This year's race will start as usual in Anchorage on March 1st. But that will only be for show: the mushers and their dogs will then be ferried to a course starting in Fairbanks, far to the north of the usual route. The reason? No snow.

While the north-eastern United States shivers through one of the coldest winters in years, Alaskans have been reaching for their sunglasses. In early December a few people water-skied on a lake, north of Anchorage, that is normally frozen solid. Trees have budded. Grass peeks out of patchy snow. Rather than the normal January temperatures of -30°C or colder, thermometers have lingered at 0°C or above. As Orson Smith, an engineering professor at the University of Alaska, drove to work recently, he did so through freezing rain, not the usual crystalline world of deep snow and hard-frozen roads. “It was a mess,” he says sadly.

To some extent, the near-tropical weather is an aberration. El Niño—an occasional weather event, driven by Pacific Ocean currents, that disrupts weather across the Western Hemisphere—is partly responsible for a frigid New York City and a slushy Anchorage. But Alaska has grown warmer in the past 20 years for other reasons too: normal climate variation plus a dollop of global warming.

Two-thirds of the coldest-temperature records for the December-February period were notched up before 1960, among them the celebrated winter of 1947, when the thermometer stuck below -34°C for 12 days in late January and early February. No chance of that this year. Temperatures were above normal for 97 of the 113 days between October 1st and January 22nd.

In early February a classic snow-machine race, the 2,000-mile Iron Dog, was cancelled for the first time in its 20-year history. Elsewhere, small villages that rely on frozen streams for transport are stranded by flowing water. Native American villagers have had difficulty reaching winter hunting grounds that are usually approached across the ice. Snow-machine dealers have no customers. Even a few mosquitoes, normally a plague in May and June, have buzzed in.

The warming trend threatens a state that, in some places, is literally built on ice. Already, warmer hills have seen unprecedented winter mudslides. Mr Smith, the engineer, warns that melting permafrost—a mix of frozen mud and water that underlies much of the state—will force the replacement of buildings and roads. The thaw could also threaten oil production, which relies on hard-frozen winter ground to move heavy machinery.

Warm winters also strike at the Alaskan psyche, shaped in large part by brutal cold. Many Alaskans revel in the biting air and the pure white of the winter landscape, not to mention the skiing, ice-climbing and snow machine-riding. This winter Alaska seems more like Seattle: soggy and grey. According to Sue Libenson, who works for a green group near Anchorage, “Alaska without the cold just isn't any fun.”

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The South

Abe just ain't right

Feb 13th 2003 | RICHMOND
From The Economist print edition

He's still not wanted in Richmond, 138 years later

THIS week marked the official birthday of Abraham Lincoln. Next week America celebrates the Presidents' Day holiday, partly in his honour. But in Richmond, the capital of the Confederate South during the Civil War nearly 150 years ago, many do not regard him as a hero. And now they have a new grievance: a bronze statue of the president who smashed the revolt and the slave economy that sustained Dixie.

A statue of Lincoln is due to be unveiled on April 5th. That date will be the 138th anniversary of Lincoln's tour of Richmond in 1865, two days after the city fell to federal troops, four days ahead of the Confederate surrender at Appomattox and nine days before America's 16th president was assassinated. During his visit to Richmond, Lincoln—accompanied by his 12-year-old son, Tad—was greeted as a messiah by crowds of newly liberated slaves.

The statue features Lincoln and Tad sitting on a bench, both looking somewhat contemplative. Behind it, carved in granite, are the words: “To Bind Up The Nation's Wounds”. It will stand in the grounds of the Civil War Visitor Centre, which is housed in the restored Tredegar Iron Works, a former cannon-foundry. Richmond's Monument Avenue has long boasted statues of Lincoln's opponents, Robert E. Lee and Thomas J. “Stonewall” Jackson—as well as Arthur Ashe, the Richmond-born tennis star, who was admitted only after lengthy agonising over whether a black should be seen in this company.

Many “come-heres”, as newcomers are known in the city, seem to like the Lincoln statue. But old-school Virginians are not happy. Brag Bolling, commander of the Virginia Division of the Sons of Confederate Veterans, has fumed to the *Richmond Times-Dispatch* that the Lincoln statue is an “unnecessary slight to our state with a not-so-subtle reminder of who won the war and who will dictate our monuments, history, heroes, education and culture.”

It also poses a problem for the party of Lincoln. In the Confederacy, the Republicans were reviled as the party of the liberal north. Now they control the South—thanks partly to wooing white voters troubled by racial integration. The party of Lincoln is now the party of Strom Thurmond and Trent Lott. The Virginia Republicans used to name their biggest annual fund-raising event after Lincoln; they quietly dropped his name about a decade ago.

Southern heritage advocates, helped by some local Republican politicians, pressed Virginia's attorney-general, Jerry Kilgore, to opine on the Lincoln statue. They cited an arcane provision in Virginia law that prohibits placing Union markings or monuments on Confederate memorials. But the ambitious Mr Kilgore finessed the issue. The law did not apply, he said, because the parkland is owned by a private corporation and leased to the federal government. “Unfortunately,” he added, “passions have clouded a reasoned and tolerant discussion of this era and the war.”

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A living wage

Getting high in Santa Fe

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Compassionate capitalism or misguided socialism in New Mexico?

HIGH in the foothills of the Rocky Mountains, Santa Fe continues to earn its nickname, “City Different”. On February 19th, the council in this artsy New Mexico city will consider the broadest, most generous “living wage” proposal so far. It would require all firms with ten or more workers to pay people $8.50 an hour, rising to $10.50 in 2007.

At present the federal minimum wage is $5.15, which works out at a fairly measly $10,712 per year. Democratic attempts in Congress to hike the rate to $6.65 seem to be going nowhere, so living-wage advocates are carrying on their battle at local level. Some 77 cities, including New York, now specify minimum wages, mostly for public-sector workers or for city contractors; campaigns are active in another 125 places.

Santa Fe already has an ordinance specifying rates for city contractors. But the new ordinance breaks ground not just by offering higher wages than elsewhere, but by obliging all private-sector employers to join in. All the town's big hotels, as well as large firms such as McDonald's, would be affected.

Proponents of the new measure say that the cost of living in Santa Fe is a fifth above the national average (blame all those pastel Tex-Mex bars and overpriced Hopi sofa-throws), but wages are 18% below it. They also point out that the real value of the federal minimum wage has fallen dramatically: in 1968 it was the equivalent of $8.27 in 2002 dollars. Besides, they add, most businesses in the city employ fewer than ten people.

Local businessmen reply that higher labour costs will mean fewer jobs. Kevin Johnson, general manager of the Inn at Loretto—an adobe mock-*pueblo* with 135 employees, 40 of whom would be affected by the ordinance—says that he would not sacrifice staff, but he admits that it would hurt his profits. Most economists think minimum wages push up unemployment. Last year, Santa Monica, another liberal stronghold, narrowly rejected a $10.50 wage for part of the city.

In the best traditions of pre-emption, the New Mexico Restaurant Association, the Santa Fe Chamber of Commerce and other opponents are trying to get the state legislature to pass a law that would ban cities from setting minimum wages. This worked in Louisiana, where the state overturned a move by New Orleans to impose a city-wide minimum wage of $6.15. All the same, if Santa Fe approves the measure, many other cities—humane, misguided or both—will follow suit.

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Lexington

The charge of the think-tanks

Feb 13th 2003
From The Economist print edition

The unusual body of people behind many of George Bush's ideas

MANY foreigners wish America would calm down a little. Why doesn't it rein in the dogs of war? Why doesn't it put a break on turbo-capitalism rather than revving it up? Why can't it behave more like Jimmy Carter and less like John Wayne? These questions hang over a million European dinner tables.

But America can boast an army of intellectuals whose job description is revving the country up still further. War in Iraq? These people have plans for the transformation of the entire Middle East. Capitalism run rampant? These people have a blueprint for bringing free enterprise to outer space. Welcome to the world of America's right-wing think-tanks.

These are now as much part of the political landscape as the stately left-leaning Brookings Institution. This year, the Heritage Foundation turns 30, the Manhattan Institute in New York is 25 and the American Enterprise Institute (AEI) is 60. As befits a libertarian outfit, the Cato Institute is a little out of step, having celebrated its own quarter-of-a-century last year. The Hoover Institution in California is an octogenarian.

Their influence is partly a matter of ideas. Two of the brainwaves of the 1990s—welfare reform and zero-tolerance policing—were incubated in conservative think-tanks. The Cato Institute has been arguing for privatising Social Security reform for years; the AEI was protesting about rogue states long before anybody had heard of Osama bin Laden. But it is also a matter of people. Donald Rumsfeld and Condoleezza Rice are both Hoover veterans. Dick Cheney and his wife have a longstanding relationship with the AEI. Elaine Chao, the labour secretary, is a Heritage alumnus. The Defence Policy Board is headed by Richard Perle, the *Über*hawk from the AEI, and a quarter of its board members come from Hoover. Hundreds of lower-level administration employees cut their teeth in think-tanks. If “people are policy”, as Edwin Feulner, the head of Heritage, likes to say, then the think-tanks are becoming America's shadow government.

The think-tanks' influence is partly related to the intellectual barrenness of America's two main parties. The Democrats and Republicans are little more than vehicles for raising and distributing campaign contributions. They have no ability to generate ideas of their own, and little control over individual politicians trying to burnish their reputations with new thinking.

This does not explain why right-wing think-tanks are so much more vibrant than left-wing ones. Money is

the reason most often cited by liberals. The right certainly has its wealthy supporters, notably Richard Mellon Scaife, a reclusive billionaire based in Pittsburgh; Joseph Coors, a Colorado brewer; and the Koch family, a business dynasty from Wichita, Kansas. But these are dwarfed by liberal organisations such as the Ford Foundation. And the left can call on the resources of America's giant universities, which, as every right-wing think-tanker moans, are stuffed with neo-socialists.

The right's real advantage lies in commitment and organisation. Many of the conservative think-tankers grew up in the 1960s and 1970s, when conventional wisdom held that government spending would solve most problems. They recruited a small army of passionate maverick dissenters, notably academics who felt marginalised at those left-leaning universities. Even now, when they are rich and powerful, there is something endearingly rabid and unhygienic about many think-tankers.

This counter-establishment is remarkably well-organised. This applies to their fund-raising, which now involves tapping thousands of conservative activists: last year more than half of Heritage's $31m donations came from individuals. But the think-tanks also work together. The AEI, for instance, allows intellectuals to think grand thoughts—most notoriously about race and IQ. Heritage is much more focused on the day-to-day business of Congress. In their predictably warlike jargon, the AEI softens up the liberal establishment with long-range bombing before Heritage sends in the ground troops to capture the territory. The conservatives are much less Washington-focused than their liberal peers, with their influence stretching to places like the Cascade in Oregon and the Discovery Institute in Seattle. There are 46 conservative think-tanks outside Washington.

At their most organised, the right-wing think-tanks often seem more like businesses than universities. Heritage, for instance, has a carefully defined mission: influencing Capitol Hill. Mr Feulner ruthlessly sets objectives and measures performance. Heritage is as passionate about selling conservative ideas as Coca-Cola is about selling gaseous drinks. It invented two-page briefs for busy congresspeople. Its various handbooks are so valuable that you see Democrats guiltily consulting them.

Still angry after all these years

Will Conservatism Inc keep its share of the intellectual market? Critics whisper that the think-tankers have become more interested in peddling ideology than in coming up with new ideas; that they are too sycophantic to Mr Bush. Yet the surprising thing about the think-tanks is how vital they remain. Heritage has doubled the budget for its Centre for Data Analysis since it was founded in 1998. Hoover has set up a television programme, Uncommon Knowledge. And they are capable of being sharply critical of the administration—for instance, over steel tariffs and runaway government spending. The libertarian Cato Institute is as vehemently critical of Mr Bush's policy in the Middle East as the AEI and Heritage are supportive.

In the end, the guiding force behind the rise of the right-wing think-tanks has been a deep and passionate fury against the status quo. Looking around these bodies, the conservatives have lost none of their zeal for cutting taxes, destroying red tape and spreading the capitalist gospel. However the war with Iraq goes, foreigners will be complaining for years to come.

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Terrorism

Once again, Colombia mourns

Feb 13th 2003 | BOGOTá
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AP

A deadly bomb in the capital confronts President Uribe with demands for results against the guerrillas

Get article background

A GIANT Colombian flag, ten-storeys high, now drapes the façade of El Nogal, an exclusive social club in Bogotá. In the worst atrocity in Colombia's capital in more than a decade, a huge car bomb exploded in a parking garage inside the club on February 7th, killing 35 people and injuring 160. Even in a country inured to violence, grief and anger were widespread. Passers-by and office workers came to gaze at the shredded insides of the club, a supposedly well-protected haven for the city's rich. Officials blamed the FARC, Colombia's largest guerrilla army. Whoever did it, the bomb underlines the grim task facing President Álvaro Uribe, who took office last August.

Mr Uribe is pledged to crack down on the violent men of Colombia's two guerrilla armies, right-wing vigilantes and drug traffickers. He has begun an ambitious military build-up, decreed emergency security powers, and made a start on fiscal and political reforms. All this had begun to change the public mood. More people are travelling by road, thanks to better highway security. Officials claim to have foiled several bombings, and to have captured some culprits of previous attacks. When a bishop was kidnapped last year, the army quickly found and released him.

But public confidence remains fragile. An opinion poll last month gave the president an approval rating of 66%, down from 74% in November. And Mr Uribe has other problems. The bomb at El Nogal came the day after another big blow for the president. Juan Luis Londoño, his “superminister” for health and labour, a brilliant economist and capable reformer, was killed when the light aircraft taking him and three aides to a meeting in the provinces crashed into a remote Andean mountainside. Mr Londoño was responsible for pension and labour reforms that are vital to Mr Uribe's efforts to control Colombia's fiscal deficit while also improving defence and social provision. He will be hard to replace.

The immediate public demand facing the government is for results against the FARC. Over the past

decade, thanks to money from the drug trade and kidnapping, the FARC has lost much of its previous communist ideology but has swollen to some 18,000 fighters. Until recently, it had remained a mainly rural, peasant force. Security analysts still doubt whether it possesses an urban support network robust enough to stage multiple attacks, but it can carry out sporadic terrorism.

In August, the FARC's urban militiamen killed 19 people in a misdirected mortar attack on Mr Uribe's inauguration ceremony. In December, a letter-bomb injured a senator closely allied to the president, and several dozen people were hurt by a bomb in a restaurant. Officials believe that outsiders have helped the FARC with explosives technology: three alleged members of the Irish Republican Army are on trial in Bogotá charged with giving the FARC training.

So far, Mr Uribe's main security innovation is an attempt to impose the state's control over two of the guerrillas' rural strongholds. These have been declared “rehabilitation and security zones”, in which the armed forces have been granted temporary extra powers by decree.

In one of these areas, the oil-rich province of Arauca, some residents say that life is now more peaceful. Arrests of guerrilla suspects have soared, after the government began to fly in prosecutors for short tours of duty. Officials say this has cut the number of attacks on Colombia's main oil pipeline: it was blown up 170 times in 2001, but fewer than 40 times last year. Mr Uribe has also stopped the payment of oil royalties to Arauca's local governments. These were routinely diverted to the guerrillas. They are now to be administered from Bogotá.

But rebel forces—right-wing paramilitaries as well as guerrillas—remain active in Arauca. Hostages are said to have been forced to drive cars packed with explosives towards military targets. This week, the ELN, the FARC's smaller cousin, ordered road and air transport in Arauca to halt.

Mr Uribe is expected to ask Congress for further, permanent, counter-terrorism powers. The El Nogal bomb will ease his quest. He also seeks more help from outsiders. The United States already gives Colombia some $500m a year in aid, most of it military; last month, 70 American special-forces troops arrived in Arauca to train a new army battalion. This week, the defence minister made a long-planned visit to Washington, seeking intelligence help. And six Central American presidents, meeting Mr Uribe in Panama, offered to co-operate against “terrorist violence”.

By attacking the cities, and especially politicians and the rich, the FARC's leaders seem to reckon that they can weaken both the economy and public support for Mr Uribe, thus bombing him to the negotiating table. They have offered talks about swapping guerrilla prisoners for scores of politicians and troops they hold as hostages, including Ingrid Betancourt, a former presidential candidate—but only if the government withdraws troops from a swathe of the countryside. Mr Uribe rejects this. Most Colombians reckon he is right to do so. But they would like to see some tangible results from the government's security policies, such as the capture of FARC leaders. Otherwise, they may start losing faith.

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Brazil's economy

Gruel before jam

Feb 13th 2003 | SÃO PAULO
From The Economist print edition

Lula wields the axe

EPA

Palocci's firm hand

THE financial markets can wreck Brazil's economy. Radicals within the Workers' Party (PT) of the new president, Luiz Inácio Lula da Silva, can ruin his honeymoon. Lula wants to please them both. But with war against Iraq in the offing, he is more worried just now about investors' fear of risk. So he is taking steps to reassure them.

On February 7th, Antônio Palocci, the finance minister, announced, as expected, that he would aim to raise this year's primary fiscal surplus (ie, before interest payments) from 3.75% of GDP, the figure agreed on with the IMF, to 4.25%. The aim is to show that Brazil means to cut its public debt, which stands at 56% of GDP. Even so, this move will not automatically do the trick. Fabio Giambiagi, an economist at BNDES, a government development bank, points out that a sharp devaluation of the *real*, which a war could trigger, will raise the debt burden regardless of the higher primary surplus. But the measure is "a signal that the debt-to-GDP ratio is not going to increase systematically."

This week the government outlined how it plans to boost the surplus. It is counting on a bigger contribution from state-owned companies. Here, higher oil prices would help: Petrobrás, the energy firm, accounts for more than two-thirds of the primary surplus of federal enterprises. Civil servants will bear some of the burden, since spending on their wages will rise by less than half the inflation rate.

But a big chunk is coming from social programmes—closest to Lula's heart but among the few over which the government has discretion. Discretionary spending this year is to be 14.1 billion *reais* ($3.9 billion) less than originally budgeted. Even measured against last year's spending there will be falls in real expenditure on social sectors such as health and education. Overall, social spending is to fall from 2.4% of GDP in 2002 to 2.2% this year. The new ministry of cities is losing 85% of its notional budget; that of the ministry of "national integration", whose brief includes helping drought victims, is to fall by 90%.

These changes carry some political risk. So, along with the cuts, the government has announced some measures intended to please the left. They included the distribution to farmers of 203,000 hectares (501,000 acres) of land in 17 states, and the creation of a secretary for racial equality. The government promised that none of its "priority" programmes would be hurt by the cuts. That will not silence the critics. But the aim is to keep their discontent within bounds until the second half of Lula's term. By then, he hopes, a buoyant economy and fiscal reforms will be delivering debt reduction without tears.

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Central America (1)

How to trade up

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From The Economist print edition

Can trade negotiations with the United States help Central America to unite?

Reuters

Unsubsidised, and uncompetitive

THEY are small, poor, vulnerable to natural disasters, and most suffered civil wars in the 1970s and 1980s. But the five republics of Central America have made some fragile progress in recent years. Now they have been picked by the United States as its latest preferential trade partners. Negotiations to create a Central American Free-Trade Agreement (US-CAFTA) were launched in San José, Costa Rica's capital, last month. They continue later this month, in Ohio. The aim is to finish them by the end of this year, before presidential campaigning takes off in the United States. Given the huge inequalities between the two sides, that looks ambitious. Even so, Central American officials hope that the talks will provide the cement their own efforts at integration have lacked for so long.

The talks involve Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Since 1960, these five have been trying to create a Central American Common Market (CACM). Though Panama and Belize belong to some Central American bodies, they are not involved in the CACM. The Central Americans have been pressing for free-trade talks ever since Mexico gained preferential access to the American market under the North American Free-Trade Agreement in 1994. Last year, George Bush took the initiative. The rationale, says John Murphy, of the United States' Chamber of Commerce, “is more geopolitical than directly commercial.”

The United States exports $9 billion of goods to the Central American five, but that is barely more than 1% of its total exports. With a total population of 36m and a combined GDP of just $60 billion, Central America is hardly a vast market (see map). But there are two attractions in the talks for the Bush administration. The first is to try to make allies of vulnerable neighbours who are the source of illegal migrants.

The second is that a swift agreement with Central America, following one with Chile last year, would increase the pressure on Brazil, South America's largest economy, to sign up to the proposed Free-Trade Area of the Americas. Talks on this are due to finish by 2005, and have reached a crucial stage. This week the United States unveiled a surprisingly bold offer to eliminate tariffs on imports of textiles and clothing by 2010; it also offered to phase out all tariffs on industrial and agricultural goods. But Brazil objected that under the American proposals, its exports would gain tariff-free access more slowly than those from smaller countries, and farm subsidies would not be touched.

For these reasons, the Central Americans have some leverage in their talks with the United States. They may need it: trade unions in the United States object to the labour conditions in clothing factories in El Salvador, for example. The biggest problem is the perennial one of farming. Hundreds of thousands of Central Americans scratch a living from just three crops, maize, coffee and sugar. Maize farmers, in particular, will need aid.

Over the past decade, the Central American countries have been liberalising their economies; none has an average tariff higher than 10%. The United States is already their biggest market, and the source of remittances from migrants. So US-CAFTA would be “more of a consolidation than a brave new world,” says Alberto Trejos, Costa Rica's foreign-trade minister.

Central American officials see two potential benefits from a free-trade agreement with the United States. First, they hope that it would increase the flow of investment to their countries, by, for example, strengthening intellectual-property rights. Second, the exercise might deepen co-operation between the five countries.

There are still many barriers to free trade within the isthmus. Inefficiencies and red tape at borders account for half the cost of transporting goods from one country to another, according to INCAE, a Central American business school. That is one of several issues that the five have been trying for years to deal with, in desultory talks aimed at making their supposed common market a reality.

These talks have foundered on national differences. Costa Rica has long been stable and relatively prosperous; it has been sniffy about sharing sovereignty with its neighbours. At the other extreme, Guatemala remains corrupt and backward. Last month, the United States bracketed it with Haiti as failing to fight drugs. According to the State Department, Guatemalan police “stole twice the quantity of drugs that they officially seized” and were involved in drug-related murders. Guatemala's human-rights record has deteriorated under President Alfonso Portillo. A presidential election in December may be won by Efraín Ríos Montt, a former dictator and Mr Portillo's mentor. In that case, many Americans might oppose rewarding Guatemala with a trade agreement.

Much negotiating remains to be done. But many Central Americans may think a deal with the United States is the only way to keep their own neighbours in line.

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Central America (2)

The revenue problem

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From The Economist print edition

Eradicating corruption is the key to raising badly needed taxes

THERE is a new kind of national lottery in Nicaragua—but it is one that nobody wants to win. Each month, the government picks the names of 100 professionals; one is then randomly singled out to be audited. Officials say that they know that out of the 100, about 40 will be tax-dodgers. Since the whole process is public, the unlucky winner risks being exposed and fined, or worse.

This is one of the more unusual ways of trying to tackle what has become the biggest weakness of most Central American countries as they prepare for free trade with the United States. Low tax revenues mean inadequate investment in infrastructure and education. Most governments also find it hard to borrow abroad, since investors are rightly sceptical of their ability to repay debt through taxation. Only El Salvador has a precious investment-grade credit rating.

Guatemala, one of the isthmus's bigger economies, is the most notorious case. At less than 10% of GDP (15% if social security is included), its tax yield is the second-lowest in the Americas, after only Haiti. Poorer Nicaragua seems to collect much more (see map). But Eduardo Montealegre, the finance minister, argues that the true figure is as low as 11%, when the huge black economy is included in the calculation of GDP. By contrast, the figure for Mexico is 18%, Brazil 36% and the United States 30%.

At the core of the problem lies a vicious circle. In several Central American countries, governments have long had a reputation for corruption. So, complain the better off, why should we hand over our money only for politicians to siphon it into their own pockets?

Some governments are trying to answer that. Nicaragua has charged Arnoldo Alemán, the president from 1997 to 2002, and several associates, with corruption. This has carried a cost: Mr Alemán's supporters in Congress have held up several government reforms in retaliation. But it “was a price worth paying,” says Enrique Bolaños, Nicaragua's current president. Perhaps because of it, last year tax revenue rose by 9%, says the government, even though the economy grew by less than 1%.

Tax-gathering in Central America has never been very efficient. Some countries are now trying to make it

so, while also increasing the number of taxpayers. Costa Rica's government has sent bills to congress that would tax money earned abroad, levy the sales tax on services as well as goods, and introduce a single form for income tax. Tax officials will also be given more power to enforce the existing rules. With these reforms, Costa Rica hopes to boost the tax take by 1% of GDP per year, says Alberto Trejos, the trade minister. Elsewhere in the isthmus, jailing a few corrupt politicians, and then doing the same to big tax evaders, might bring swifter returns.

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China

The not-so-great power

Feb 13th 2003 | BEIJING
From The Economist print edition

It may be a permanent member of the Security Council, but China's concerns remain primarily domestic, not global

WELCOMING President Jiang Zemin of China to a meeting of Asia-Pacific leaders in Mexico last October, President Vicente Fox called China “a great power with major influence, playing active roles in international affairs”. China's state-run news agency happily played up the flattery. But as crises now approach in Iraq and North Korea, China is playing only a marginal role and, more to the point, seems disinclined to exert whatever influence it could bring to bear. Much as it likes to be seen as an important world power, it is still in the middle ranks.

The Americans are annoyed at what they see as China's reluctance to put pressure on North Korea to give up its nuclear programme. On February 9th, the American secretary of state, Colin Powell, said China had “considerable influence with North Korea”. Half of China's foreign aid goes to its ally and neighbour. Indeed, “Eighty percent of North Korea's wherewithal, with respect to energy and economic activity, comes from China. China has a role to play, and I hope China will play that role,” he said, pointedly.

China does have a strategic interest in preventing North Korea from acquiring nuclear weapons and in dismantling the ones it may have already built. An overtly nuclear North Korea could prompt others in the region, notably Japan, to go nuclear too. But China responded dismissively to Mr Powell's remarks, repeating its usual line that the nuclear dispute should be resolved through direct negotiations between America and North Korea. In fact, the Chinese are quietly encouraging the North Koreans to talk to America in the margins of a multilateral setting, which would provide a face-saving way around America's refusal to negotiate directly. But China is unwilling to do anything more than ask the North Koreans politely.

A western diplomat in Beijing says, however, that much as China would like to block North Korea's nuclear ambitions, “there is not a hell of a lot China could have done” to stop North Korea acquiring nuclear weapons, given that country's profound fear of American attack. As far as China is concerned, cutting off aid is not an option. It would risk bringing about North Korea's collapse and perhaps precipitating an even greater security crisis if the moribund regime were to lash out at South Korea and Japan. China is sure to oppose any attempt to sanction North Korea, after the UN's nuclear watchdog this week declared North Korea in breach of its obligations, and reported it to the Security Council.

China's diplomatic style has evolved since the early 1990s, when its language was far more shrilly anti-American. But its actual behaviour is much the same as it was during the North Korean nuclear crisis of 1993-94 and in the aftermath of Iraq's invasion of Kuwait in 1990. In other words, a decade of rapid economic growth and an unusually prolonged period of political stability in China have not caused the country to change its generally passive approach to international affairs. Regionally, China has flexed its muscles a little more, with a military build-up along the coast facing Taiwan, though its response to strengthened American military ties with Taiwan has been low-key.

During the current Iraqi crisis, China has often repeated its desire for a peaceful outcome and for the UN to play a leading role. Yet it has offered no original ideas nor taken any public initiative. Though Mr Jiang has expressed support for Franco-German-Russian calls for a diplomatic solution, diplomats think China is unlikely to threaten a veto should the Americans seek another resolution authorising the use of force. The greatest imperative of Chinese foreign policy, after all, is to preserve good relations with America, since it is on these that China's continued economic development depends.

For above all, China's preoccupation is with affairs at home rather than reshaping the world order. A sweeping change of leadership that began at the Communist Party's 16th congress in November will not be completed until the annual two-week session of the legislature next month. Hu Jintao, who was appointed party chief at the congress, has hardly any experience in foreign affairs. Even if he picks up the additional title of president in March, which is thought to be all but certain, he might still have to defer on security issues to Mr Jiang, who may well stay on as supreme military commander for the next few years.

Barring a direct threat to China's security, the country's new leaders will continue to concentrate on keeping up the pace of economic growth—a strategy that the late Deng Xiaoping persuaded his colleagues a decade ago was essential to the regime's survival. And a crucial guarantor of growth, they will as always argue, is the maintenance of social stability. This week, a Chinese court sentenced Wang Bingzhang, a Chinese dissident resident in America, to life in prison for alleged espionage and terrorism. Mr Wang's friends say he was abducted by Chinese agents while on a visit to Vietnam and taken to southern China where he was put on trial. Mr Wang's unusually heavy sentence was clearly intended as a warning to activists abroad hoping for political change in China to keep well away. China seems far from enjoying the sort of confidence in its own political system that one expects of a great power.

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India and Pakistan

The frost before the thaw

Feb 13th 2003 | DELHI
From The Economist print edition

The channels of communication narrow still further

AP

Ready for the spring

Get article background

MOST days, the Wagah border post between India and Pakistan—the tiny funnel joining two countries with a total population of 1.2 billion—sees little traffic: a few foreign tourists, traders and officials cross on foot. Among them this week were several diplomats on their way home, the Indians expelled from Pakistan, the Pakistanis from India. The expulsions reduce the chances that the nuclear-armed neighbours will talk their way out of another nervy confrontation later this year.

After India blamed a terrorist attack on its parliament in December 2001 on Pakistan, all transport links were severed, and staff numbers in the respective high commissions (embassies) in Delhi and Islamabad cut by half and downgraded to the level of chargé d'affaires. More tit-for-tat expulsions followed last month, initiated by India, as was the latest round, announced on February 8th. India's stated motives went to the heart of its grievance: Pakistan's failure to fulfil its promises to stop sponsoring terrorist attacks in the Indian-controlled part of Kashmir. Pakistan's acting high commissioner, Jalil Jilani, was accused of handing over cash to Kashmiri separatist groups. He and four colleagues were sent packing. Pakistan, which called the charges “trumped up”, reciprocated.

India used the incident to renew its efforts to convince the rest of the world of the evils of Pakistan's “proxy war” against India in Kashmir. On February 10th, Atal Behari Vajpayee, India's prime minister, complained to an international conference on terrorism in Delhi of Pakistan's “double standards” in justifying violence in Kashmir as part of a freedom struggle.

An implicit co-defendant on the charge of hypocrisy was America, seen as having been too soft on Pakistan because of its help during the war in Afghanistan. In fact, America has of late been nagging Pakistan in public. Last month, Pakistan-based Islamist groups even called for the expulsion of the American ambassador, Nancy Powell, after she told her hosts to stop providing a “platform for terrorism”. With America now concentrating on Iraq, Pakistan, currently a member of the Security Council, faces hard choices. Opinion at home will make it hard for it to acquiesce in war.

Pakistan accuses India's ruling party of playing a “dirty game of escalating tension” before forthcoming elections, and, after India reported its third successful test-firing of a medium-range cruise missile on February 12th, of “massive militarisation”. Indian analysts, though dismissing the latest tiffs as routine,

expect tension to mount in April and May, when the snows melt in the passes between the Indian and Pakistani parts of Kashmir. Then, infiltration and violence are likely to increase, as will the pressure on India to respond.

Some are already arguing for retaliation against any fresh provocation, calling for air strikes on the militants' camps in Pakistani-controlled Kashmir. Military types scoff even at this, seeing little point in blowing up a few dormitories and assault courses. But in plotting how to raise the cost to Pakistan of its covert war in Kashmir, they remain constrained by the big unknown: how far can confrontation go before it turns nuclear?

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Indonesia

Autonomy or anarchy?

Feb 13th 2003 | PEKANBARU
From The Economist print edition

Devolution isn't working as planned

THE people of Riau say that their province, which lies opposite Singapore on Indonesia's side of the Malacca Strait, has oil below ground and oil above. But it is neither crude oil from Indonesia's biggest fields nor palm oil from its biggest plantations that has really brought prosperity to Riau over the past two years. It is Indonesia's new “autonomy” or devolution law, which confers a quarter of central-government revenue on the country's districts and provinces, plus a hefty slice of the income from local natural resources. Signs of Riau's new riches are everywhere: shiny new four-wheel drives clog the roads, flashy shopping malls are springing up, and the city's main mosque is getting a facelift, complete with six new minarets.

All this makes Riau a poster child for the devolution law, which the government of the day pushed through parliament in 1999, in the hope of buying off Indonesia's most restive components and thus keeping the country in one piece. As the province's economy has boomed, its separatist movement—true, never very strong—has dissipated.

But Riau is also a showcase of the many unexpected tensions the new system has brought on. The province's 15 regents (district heads) exercise their new administrative and financial clout so imperiously that locals refer to them as “little kings”. Stories abound of reckless extravagance or outright corruption. The provincial government, meanwhile, is making controversial forays into the oil and airline businesses, to name a few. In other parts of the country, regents have simply seized companies belonging to the central government, or imposed arbitrary new rules on businesses. Fears of decentralisation run amok are beginning to replace fears of Indonesia's disintegration.

Money lies at the heart of all the fuss. The devolution law hands the regions many of the central government's former responsibilities, like health care, education and public works, but only a quarter of its revenue. No more than four provinces—Riau, Aceh, East Kalimantan and West Papua—earn much extra income from natural resources. The richest of these, East Kalimantan, receives ten times more money per inhabitant than the poorest province, Banten, while the richest district (Fakfak, in West Papua) takes in 50 times more per person than the poorest (Belu in East Nusa Tenggarah). Hence some of the more desperate revenue-raising measures. In Padang, an impoverished industrial town in Sumatra, local officials have simply seized a cement plant that the central government wanted to privatise. In Bogor, near Jakarta, the city government has started to charge an illegal levy on goat imports.

The home ministry says it is loth to hand the regions more money until it can be sure the money will be well spent. Chaidir, the speaker of Riau's provincial assembly, concedes that Riau's regents have a spendthrift penchant for prestige projects. But the provincial authorities, he argues, cannot force them to build local clinics instead of state-of-the-art hospitals, or to surface dirt roads instead of building showy suspension bridges. The central government is partly to blame, since it has not issued minimum-service guidelines for the district governments. Tabrani Rab, a Riau native and member of the central-government committee overseeing the devolution system, is more worried about corruption. He claims that the Riau government has spent 10 billion rupiah ($1.1m) on an as yet invisible stadium, and another 37 billion on a phantom cultural centre.

These improprieties stem from flaws in the devolution law. Its drafters wanted to appease the regions without inflaming separatism. So they bypassed the 30 provinces, and handed most of the money and authority to the 360 or so districts—considered too small to challenge the central government. But many are also too small to cope with tasks like disease control or watershed management, or to sustain any oversight in the form of local media or pressure groups. What's more, by keeping control over taxation and handing out grants, the central government allows Indonesia's districts to spend without forcing them to raise the money themselves—a recipe for waste. Local autonomy, one might well argue, has not run amok in Indonesia—it has not run far enough.

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The Solomon Islands

The Pacific's first failed state?

Feb 13th 2003 | GUADALCANAL
From The Economist print edition

Special constables, special problems

BILL MORRELL'S first big case was not long in coming. He arrived in the Solomon Islands from Britain on January 28th to take up the job of police commissioner. Now he is investigating the murder of Sir Frederick Soaki, who had once also been police chief. Sir Frederick was shot dead by a masked gunman while he dined in a restaurant in Auki, on the island of Malaita. He was in a United Nations delegation trying to demobilise the country's "special constables". His murder is thought to be connected with this work.

Most special constables are former fighters from Malaita and the island of Guadalcanal, who were locked in a bitter conflict until they signed a peace treaty in the Australian city of Townsville in October 2000. That treaty gave the fighters an amnesty, although some killing continued. Many have since been made special constables in order to give them a job.

Some militants did not join the police. Harold Keke, who refused to sign the Townsville peace deal, terrorises villages on Guadalcanal's southern coast, which regular police avoid. But northern Guadalcanal's special constables agreed last week to stand down in return for payments from the UN of SI$250 ($33) per month for the next six months, together with some money to help start up small businesses.

In Honiara, the chief town in Guadalcanal, and the capital of the Solomons, the situation is dangerously different. It is largely populated by migrants from Malaita. Most special constables are Malaitan youths who during the conflict forged close connections with senior members of the regular police. The government has three ministers who were once commanders of a former militia group, the Malaita Eagle Forces. Honiara's special constables regularly extort money from the government, including extravagant allowances and overtime payments. Last December, the country's finance minister resigned in protest after the prime minister, Sir Allan Kemakeza, asked him to sign over yet more money to pay for the constables.

Small wonder that the country is on the verge of bankruptcy. A visiting IMF team in November concluded that continuing the government's policy "would entail, disastrously, a further increase in budgetary and debt arrears, loss of donor financial assistance, intensified exchange restrictions and eventual economic collapse". The Solomon Islands once exported gold, palm oil, timber and canned tuna. But the Japanese pulled out of the Taiyo fish cannery at Noro, timber exports were hit by the Asian slump, Ross Mining closed its Gold Ridge mine and Guadalcanal's palm-oil plantations have been abandoned.

The Solomon Islands' Western Province, unsurprisingly, wants more power for its local assembly. It provides the lion's share of timber exports. Rural Guadalcanal has similar ambitions. It has gold and the country's largest tract of arable land. Only resource-poor Malaita, and its itinerant elite in Honiara, are keen to keep the country as it is. But unless Malaita's leaders can control their unruly former militants, and assist Mr Morrell, the new police chief, in restoring law and order, the prospects are bleak. The Solomon Islands faces the prospect of becoming the Pacific's first failed state.

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Counterfeiting in Vietnam

Faking it

Feb 13th 2003 | HANOI
From The Economist print edition

New moves to protect foreign companies

Reuters

Pirates ahoy

THE Tet festival marking the lunar new year, which began on February 1st, is Vietnam's most celebrated holiday, a time to have a spending spree. This year the government used the occasion to remind the Vietnamese that counterfeit goods are illegal. So steer clear of the fake designer handbags and computer software, however tempting the prices. Western companies, for long the victims of counterfeiting, welcomed the warning, as they have welcomed such warnings in the past. But they are realistic enough to know they will continue to face an uphill struggle when enforcing their intellectual-property rights.

Take Vietnam's customs law, passed in December 2001, which allows customs offices to hold suspected counterfeit goods at the border, and thus stop them being exported. Under the law a company that believes its goods have been copied can instruct its legal representatives to make a complaint. But the representatives are not allowed to inspect any goods; that is the job of customs officials who have to be satisfied that a reasonable case has been made. Even then, a bond of 20% of the value of goods must be put up, as insurance against wrongful and malicious impoundment.

In practice, companies simply cannot move fast enough to stop the dodgy goods from going abroad, nor can they realistically afford to employ a brigade of border representatives armed with bagloads of Vietnamese money. Not one of the foreign companies doing business in Vietnam has taken advantage of this law to prosecute infringers of their trademark rights. Instead, some companies have been asking provincial and local authorities to act on their behalf, and this has had some results. Fake Honda bikes and parts have been seized, and fines handed out in a number of provinces. Videos have been taken of an official steamroller running over the offending handlebars while representatives from the economic police, the Market Management Bureau and the People's Committee stand solemnly to attention watching justice being done.

Honda advertises in Vietnamese newspapers and magazines that counterfeiting is illegal, and at a recent exhibition in Hanoi explained how to tell a fake from the real thing, and the possible dangers of buying a fake. Nike, which produces 15% of its footwear in Vietnam, helped police seize 25 lorryloads of fake shoes and shoe parts. But Chris Helzer, Nike's manager in Vietnam, says the country still has a lot to do to comply with trade agreements between Vietnam and America.

The problems are not confined to manufactured goods. It is estimated that 99% of computer software available in Vietnam is pirated. Affected companies are defeatist about seeking the protection of the courts. This defeatism is deepened by visits to government offices that use pirated copies of Microsoft “Office”.

The government has acknowledged the problem, but few of the officials dealing with counterfeiting have travelled abroad. They do not have a broad view of how damaging counterfeiting can be to trade. Lack of knowledge of life in other countries is evident at the National Office of Industrial Property, the government body responsible for the granting of trademarks. Under Vietnamese law, a trademark cannot be registered if it is either descriptive or laudatory of the goods in question. Priceline.com has had a hard time trying to convince the trademark mandarins of the distinctiveness of its “Name Your Own Price” catchphrase. And, although even the poorest Vietnamese has a get-rich-quick scheme in his back pocket, “Who Wants To Be A Millionaire” has been rejected for protection.

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Memories of colonialism

A Danish gem gets a polish in India

Feb 13th 2003 | TRANQUEBAR
From The Economist print edition

The fort that rivalled Hamlet's

THE Danes are Europe's forgotten colonial power. They did not confine themselves to the chilly territories of the North Atlantic, Greenland, Iceland and the Faroes. They also maintained sizeable possessions in the Caribbean, and for more than 200 years a trading post in south-eastern India, Tranquebar.

This part of the Indian seaboard, the Coromandel coast in present-day Tamil Nadu, is dotted with forts, warehouses, cemeteries and other relics left by the European colonial powers from the 16th century onwards. The British Raj began in Madras. French India was based in Pondicherry. There are also surprising numbers of Dutch and Portuguese sites.

The Danish one is quite unexpected. Old Tranquebar has the neatly planned King Street and Queen Street, stuccoed churches and pillared colonial buildings. Fort Dansborg, sitting on the Bay of Bengal, was second only in size to Elsinore, Hamlet's castle, in the Danish canon. It was built in 1620 by a Danish admiral whose main aim was to secure pepper imports for his kingdom. The settlement was sold to Britain in 1845, but over the years Tranquebar became derelict. Now Danes and Indians have an ambitious restoration plan.

Poul Petersen, an amiable, bearded headmaster from the Danish island of Funen, has been visiting Tranquebar for 13 years. With a group of friends, he formed the Tranquebar Association. One wing of the fort and the town's old entrance gate have now been renovated, paid for by the association and the Indian and Tamil Nadu governments. Supervised by Indian government archaeologists, the original Danish construction techniques have been replicated.

This could be a major fillip for modern Tranquebar, called Tarangambadi in Tamil. The district in which it lies has 1.5m people. Farming provides most jobs, but it is mainly reliant on the monsoon rains, which frequently give the region a miss.

Sudeep Jain, the local representative of Tamil Nadu's government, believes tourism can boost Tranquebar's economy. He visualises a future for the place in which “people will sell handicrafts and open small restaurants and entertainment areas”. Hoteliers have been eyeing the Governor's House, another building ripe for restoration.

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The Muslim world and America

Sermons that resound with the clash of civilisations

Feb 13th 2003 | CAIRO
From The Economist print edition

AP

Muslims, gathered in Mecca for the haj pilgrimage, are told to confront the enemy

Get article background

AS THE western world wrangles over tackling Iraq, the Muslim world, now celebrating the annual *haj*, is more concerned with tackling America. Saudi Arabia's top religious scholar, Abdul Aziz al-Sheikh, offered a hint this week. In a sermon heard by the 2m pilgrims gathered in Mecca, and televised worldwide, he made a rousing call for unity, and a return to Islamic tenets in the face of “enemies” bent on undermining them. The sheikh did not directly name America or its threat to invade Iraq. But his contention that the Muslim *ummah* or nation is being attacked, “economically and religiously”, reflected the common Muslim belief that America wants Iraq for its oil, and assaults Islamic morals in the guise of its war on terror.

Saudi religious officials are bound by their close ties to the ruling family to refrain from being provocative. Indeed, the kingdom's Council of Ulema, or religious scholars, recently issued a scathing condemnation of attacks on non-Muslim civilians as a form of deviancy. But Islam is a broad faith. Muslim scholars of a more independent stripe are speaking openly of the duty to resist America's aggressiveness, even by force of arms.

Yousef Qaradawi, an Egyptian-born cleric based in Qatar, with a wide television following and a reputation for moderation, has denounced terrorism in the name of Islam. Yet, in a recent interview, Mr Qaradawi declared that anyone killed while fighting to expel American forces from the Gulf would die a martyr. While praising the American people, he claimed that their government was waging war against Islam. The current build-up of American troops, he said, reminded him of the Tatars massing to invade Muslim lands in the 13th century.

Oddly, the rhetoric matched that of Saddam Hussein, a leader for whom Mr Qaradawi, and most other Muslim scholars, have little sympathy except as a symbol. In a speech marking an anniversary of the last Gulf war, Iraq's ruler likened George Bush to Hulagu Khan, the leader of the Mongol hordes who razed Baghdad in 1258 (though the Americans would fall at the gates of the city, he said, not capture its ruler, roll him in a carpet and have their cavalry ride over it, or build pyramids of Muslim skulls, as Hulagu did).

Mr Qaradawi's opinion tallies with that of more radical Muslims. Leaving aside the terrorist groups that

have continued to mount sporadic attacks on Americans in the region, non-violent movements, such as the Muslim Brotherhood, have issued calls to resist America's perceived drive for hegemony. The Brotherhood represents the only serious opposition to the governments of Egypt and Jordan, both valued American allies. Its Jordanian branch recently demanded that Arab governments expel American forces. The Egyptian branch called on governments to heed the will of their people, and act “to confront the crusaders before we are driven into slavery”.

Even at the paler end of the Islamic spectrum, hostility to American policy is fierce. At a seminar sponsored by the website IslamOnLine, a group of greying Egyptian Islamist intellectuals disputed whether America is actually warring against Islam, but agreed that *jihad* against military forces invading or occupying any Muslim country, including Iraq, is legitimate. The website's on-line *fatwa* service asserts that it is a sin for the Iraqi opposition to collaborate with infidels in order to overthrow their government.

The dissenting voice in Muslim opinion comes from that opposition. Albeit with reluctance, the Supreme Council for the Islamic Revolution, the leading Iraqi Shia opposition group, has accepted the need for American help in toppling the regime. And when Shia authorities in Iraq issued a *fatwa* last year urging Muslims to defend the country against aggressors, scholars in exile were quick to dismiss the ruling as having been forced under duress.

Like most people, whatever their faith, Muslims do not generally acquire their political opinions from clerics. Mostly, they do not care much for politics, and do not identify personally with a vast Muslim *ummah* all that much more than most Christians identify with Christendom. But with religious sensibilities heightened, and with mild-mannered preachers regularly blasting American policy, the voice of Osama bin Laden, heard again this week as he called on Muslims to fight “allies of the devil”, sounds less far-fetched. Muslims hate his methods, but they agree with the message: Yankee go home.

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Iraqi opposition groups

Hi, leave it to us

Feb 13th 2003 | SULAYMANIYAH
From The Economist print edition

Iraq's opposition is dismayed at plans for an American occupation of Iraq

Get article background

Reuters

Your plan's no good, says Chalabi

WHEN Iraq's opposition groups—the six that enjoy American support—met in London at the end of last year, they had fond hopes that George Bush would anoint them to be Saddam Hussein's successors. They are now expressing dismay, and a sense of betrayal, at having this belief corrected. After a meeting in Turkey last week between three of the six groups and Zalmay Khalilzad, the American president's envoy, they learnt that, in the event of Mr Hussein's fall, America intended to turn Iraq over to an American military governor for a year or so, and to put American officers in the main ministries.

Ahmad Chalabi, an opposition leader who did not attend the meeting with Mr Khalilzad—he says he was invited late in the day—rages at what he calls America's unworkable plan. The best, he says, that opposition luminaries can hope for is membership of an advisory council to be chosen by the military governor, and, after about a year, election to a constitution-drafting body. In the meantime, he says, Mr Khalilzad envisages a temporary constitution, drafted by a judicial council whose members will be appointed by the Americans. Under these circumstances, say Mr Chalabi's supporters, Iraqis will regard America as an occupying force.

Iraq's Kurds are no less disappointed, even if they express themselves more diplomatically. Their autonomous northern zone is now administered by the two main Kurdish groups, the PUK and the KDP. In Sulaymaniyah, the PUK capital, officials say that Mr Khalilzad has turned his back on the political statement that emerged from the London conference, a statement that America had appeared to endorse.

In this document, the six groups conferred on themselves a central role “in all stages of the expected process of change”. They firmly rejected “occupation, foreign or local military rule, external trusteeship or regional intervention”. And they committed themselves to a federal structure that would, in effect, legalise the Kurds' de facto autonomy from Baghdad.

In deference to his Turkish hosts, who fear that Iraqi federalism could galvanise their own restless Kurds, Mr Khalilzad refused to commit himself to a federal Iraq. To the alarm of the Kurds, he spoke of a possible Turkish military incursion, ostensibly to provide humanitarian aid, but probably to dissuade the Kurds from expanding their territory, and block moves to independence. The Turks also say they will allow, subject to parliament's ratification, tens of thousands of American troops to use Turkey as the jumping-off point for a southwards thrust against Iraq.

The Iraqi opposition detects the particular imprint of Saudi Arabia, a Sunni monarchy with a Shia minority, on Mr Khalilzad's support for a very staggered transition to democracy. Saudi Arabia is at least as keen as America is to limit the influence of the Iran-backed Supreme Council for Islamic Revolution in Iraq (SCIRI), the biggest Shia opposition group. Unsupervised democracy, they both fear, might well allow this group to ride to power. As a first step, America has told the SCIRI to keep its Iranian-armed standing force away from the fighting.

Keep out of Kirkuk

The Kurds, like the SCIRI, have been told to stay put. One reason is that the Americans are determined to reach the oil-rich city of Kirkuk, which the Kurds briefly held after the 1991 Gulf war, before anyone else can take control of the city and its wealth.

Although the opposition groups have forsworn any desire to set up a government-in-exile, they had been hoping to use a second conference, with Mr Khalilzad in attendance, to develop their ideas for a transitional administration. They now blame America for delays in holding this meeting, scheduled for mid-February in Iraqi Kurdistan, and accuse Mr Khalilzad of trying to foist his appointees on to the secretariat that will supervise the conference. Their own democratic credentials may be pretty dubious, but the opposition groups now increasingly question the sincerity behind America's stated desire to shine a beacon of democracy into their benighted corner.

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Jordan prepares for war

Splendid for business, too

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From The Economist print edition

America's military build-up in Jordan becomes obvious

THE American air force has been good for Ali's dry-cleaning business. Six months ago, he received only 40 sacks of washing a day from British and American troops stationed along the Jordanian border. This month, his intake has soared to 250 sacks, or some 1,200 uniforms a day.

Ali is not the only Jordanian to profit from the war. Hundreds have found jobs working 24-hour shifts at the military base in Safawi, off the road to Iraq, assembling barracks under the glare of floodlights. Car-hire agencies are so busy striking lucrative deals that the capital has no more 4X4s left to hire. Even the shepherds in the remorseless flint plains that border Iraq have found a more profitable alternative to goats: drilling boreholes in preparation for the expected influx of Iraqi refugees.

The biggest winner, of course, is the Jordanian government, which is set to receive more than $200m of American military aid a year. In contrast to its pariah status in the last Gulf war, Jordan is now the third-largest recipient of American aid. In King Abdullah's own words: “Jordan first”.

Iraq has made some faint attempts to counter America's lure. Last week, it banned petty oil-smugglers in Ruweishid, a Jordanian town on the border, from driving across to Iraq to fill up their tanks, thus severing the town's lifeline for the past 13 years. Rather than blame Iraq, the townsfolk fumed at the American and British special forces camped on the edge of their town, saying that they had been crossing over, disguised as smugglers.

But Ruweishid soon found new lines of business: renting its homes to foreign television crews seeking a front-row view of the war. Property prices have further soared as aid workers, arriving to tend to an expected wave of refugees, displace residents from the best bungalows. “We're not only raking in rent, we're getting flush toilets too,” said Ruweishid's latest self-styled estate agent. And though the ban on smuggling carries the threat that Iraq may cut the official deliveries it gives Jordan at an enormous discount, the authorities claim that America has already offered to make good the shortfall.

Iraq's best hope remains the Jordanian people, as distinct from their government. To begin with, Jordan's information minister, Muhammad Adwan, tried to keep everyone from worrying by claiming that the military traffic pouring into the kingdom was routine. He denied persistent Arab and Israeli reports that American and British special forces stationed in Jordan were fanning across Iraq's western al-Anbar desert, hunting for Scuds or preparing for an invasion. But last week three Patriot anti-missile batteries arrived, accompanied by American troops, and the American presence became too big to deny.

In the eastern desert, unmarked transport planes fly out of the fog. The highway to Iraq heaves with military juggernauts, some bearing containers that are clearly components for a mobile military hospital. Vehicles without licence plates speed by packed with conspicuous white faces.

Yet the predictions of widespread trouble have not so far come to pass. Jordan's press is heavily censored. The unions have been banned from discussing anything other than employment rights. Elections, long delayed, have been put on hold until after the war. And demonstrations, allowed again after a ban of ten months, are puny affairs compared with their European counterparts. After all, most Jordanians, faced with the prospect of subsidy cuts, are too busy making ends meet to ask the relevant questions.

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Southern Africa's double jeopardy

Cursed, twice over

Feb 13th 2003 | JOHANNESBURG
From The Economist print edition

Hunger and HIV are a lethal combination to strike southern Africa

Get article background

FAMINE has a new ally. If it were not for AIDS, southern Africans might be able to cope with the food shortages afflicting the region. But the epidemic is making millions too weak to grow enough food, and too weak to survive with empty stomachs.

In the past, when food was short, Jenerah Michelo, a Zambian subsistence farmer, could buy or beg from neighbours. But then her husband died of AIDS, leaving her with six children, a nearly empty food pot and a debilitating virus in her bloodstream. Now she is too feeble to forage, and neighbours are reluctant to help because she is a “patient”. Foreign donors sometimes bring food and tablets to treat convulsions. But the medicine should be taken after a full meal, “so I get side effects, I become weak and dizzy, I cannot manage.” She cannot get hold of anti-AIDS drugs, but if she could, they too would be useless without adequate nourishment.

For a year, the World Food Programme (WFP) and others have strained to relieve a food shortage that affects 14m people in six southern African countries. James Morris of the WFP says that Malawi, Zambia, Zimbabwe, Lesotho, Swaziland and Mozambique will need aid for months to come, largely because the hunger is compounded by HIV and AIDS. In the six countries, one adult in four is now infected. Few people are actually starving, but many are succumbing to AIDS prematurely because they are weakened by hunger.

Alan Whiteside, a South African scientist who studies AIDS in Africa, and Alex de Waal, a development expert, are calling it a “new variant famine”. They point out that most of the 30m HIV-infected Africans are young women and men in their most productive years. (In South Africa, the average age of those dying from AIDS is 37.) With fewer hands to plant and harvest, crop yields drop. One recent study found that incomes in poor rural households with an HIV-positive member were falling by half. According to the UN Food and Agriculture Organisation, 7m peasants and farm workers in 25 African countries had died from AIDS by 2000, and 16m more will die by 2020.

Children, especially girls, often miss school to look after the sick, or to grow food when their ailing parents cannot. The 2.5m AIDS orphans in the six countries are especially vulnerable: their parents have often died before they could teach their offspring about farming, or how to forage for wild roots and fruit in dry years. Broken families and poverty have forced some young women and children into prostitution, which in turn spreads the disease.

Matters are aggravated by the fact that, in Africa, more women than men are infected with HIV—and it is women who, besides everything else, do most of the farm work. Stephen Lewis of the UN children's fund says that the combination of hunger and AIDS “is the most ferocious assault on women ever”, and calls for donors to rethink how they should tackle the emergency. In Malawi and Zambia, for instance, there is talk of importing cheap, generic anti-retroviral drugs from India to fight the AIDS epidemic.

All famines are complicated affairs, with multiple causes. Some combination of war, weather, misrule or pestilence is usually to blame. In Zimbabwe, misrule and economic collapse may play a bigger part in the shortages than AIDS. Moreover, in most famines it is disease, not starvation alone, that claims the most victims. In this respect, the famine-cum-AIDS alliance fits an established pattern.

What is unprecedented is the scale of the disruption it is causing. According to Mr de Waal: “AIDS has disabled the body politic...the worst-hit African countries have undergone a social breakdown.” And,

indeed, there are signs of such a breakdown in Mrs Michelo's village: her family cannot help her, her neighbours will not, and some have even been stealing her chickens. Such theft was unknown during previous food shortages, as was hoarding by the better off, which has now become commonplace.

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The UN's war-crimes tribunal

The lesson of Slobodan Milosevic's trial and tribulation

Feb 13th 2003 | THE HAGUE
From The Economist print edition

Even as NATO quarrels about how to deal with one bloody tyrant, another is trying to turn his war-crimes trial in The Hague into a circus

Get article background

THE trial of Slobodan Milosevic, Serbia's former strongman, had its first anniversary this week, but the only person who seemed in a mood to celebrate was the defendant himself. Mr Milosevic may be facing 66 separate charges of the gravest crimes imaginable, including genocide, at the UN's war-crimes tribunal in The Hague, but he appears to be enjoying himself nevertheless. Berating or bullying prosecution witnesses with relish, and peppering the judges with objections, he has turned his right to act as his own lawyer into a bravura performance.

Yet Mr Milosevic has not managed to disrupt or discredit the court, and his trial grinds on, revealing a mounting body of damaging evidence. Moreover, the tribunal has a growing number of other top leaders in custody, and looks on course to nail the leading perpetrators of the worst atrocities in Europe since the second world war. It may also pave the way towards bringing other world-class villains to justice. So it is still poised to break international legal ground.

Though dozens of defendants have been tried at The Hague (see table) since the UN established the tribunal almost ten years ago, Mr Milosevic is the biggest catch. He is the first head of state since the Nuremberg trials of 1945-46 to face charges before an international court and one of the most awkward big-name defendants to appear in any court anywhere. His behaviour has put the entire tribunal—indeed the very idea of international war-crimes trials—to its severest test.

So far, the three judges conducting the trial have done well. They have bent over backwards to be fair to Mr Milosevic, rejecting prosecution demands that they appoint a defence lawyer to represent him over his objections, suspending proceedings whenever he has felt ill, and wearily explaining to him, over and again, the court's rules. Aware that Mr Milosevic, though educated as a lawyer, is not an experienced trial attorney, they have

granted him as much leeway as possible in cross-examining witnesses, a concession he has used ruthlessly. In fact, nearly two-thirds of the court's time in the trial's first year has been taken up by Mr Milosevic himself, even though he has still to mount his own defence.

Facing judgment

War-crimes proceedings in The Hague

	Number
Found guilty	29*
Already tried	34
Acquitted	5
Now on trial	8
In custody	42
Serving sentence	10
Awaiting judgment or sentencing	3
On remand but not yet committed to trial	26
Freed after serving sentence	4
Indicted but not arrested	23
Provisionally freed	11

*18 Serbs, 9 Croats, 2 Bosnian Muslims

Source: UN International Criminal Tribunal for Former Yugoslavia

Yet the judges have managed to keep the trial on track, restraining Mr Milosevic when his outbursts have been most intemperate and working through the voluminous evidence put before them. Unexpectedly, Mr Milosevic has helped them. He no longer seems intent on wrecking the trial, as was originally feared, but on prolonging it as long as possible in order to keep performing for his audience back home in Serbia, where the proceedings are shown on television. Though he still refuses to recognise the tribunal's legitimacy, he abides by the judges' rulings, stands when they enter or leave the room, and addresses everyone else in the courtroom with a modicum of politeness. By taking part so actively, he has inevitably bolstered the tribunal's credibility, even in the eyes of sceptics. Once the trial is over, he and his supporters will find it hard to argue that he did not get a fair hearing.

Despite Mr Milosevic's antics in court, the prosecution is building a strong case against him. The trial's first phase, dealing with Kosovo, finished in September. It produced no “smoking gun” to prove that Mr Milosevic had directly ordered the atrocities or mass expulsions in 1998 and early 1999. That is hardly surprising. He committed very little to paper and often met his subordinates alone. But the prosecution did present a slew of evidence of a concerted Serb plan to drive hundreds of thousands of Kosovo Albanians from the province through murder and terror—and demonstrated a clear chain of command leading to Mr Milosevic.

The trial's second phase, which deals with even more widespread Serb atrocities in Bosnia and Croatia, has already featured damaging testimony from some Serb officials that in the early 1990s, despite Mr Milosevic's denials, he personally directed the Yugoslav army and Serb paramilitaries from Belgrade. This week Major-General Aleksandar Vasiljevic, the army's former head of intelligence and the most senior insider yet to appear, testified against his former leader. Other top Serb officials are expected to follow him into the witness chair in the coming months, many in the hope of escaping prosecution themselves.

Mr Milosevic's response to the evidence has been a combination of bluster and determined efforts to discredit witnesses. He is often well briefed, frequently drawing on material from secret-police and army files prepared for him by a team of aides in Belgrade. And yet, from a legal point of view, his performance has been feeble. His recent attempts at intimidation, so effective in the trial's early weeks, have fallen flat, as witnesses have come to court knowing what to expect. His cross-examinations, though detailed, have often been irrelevant, aimed more at scoring political points than challenging evidence. Richard May, the presiding judge, has constantly struggled to confine Mr Milosevic's questions to the issues at hand. “Attacking the other side is not a defence,” he has repeatedly explained to the defendant.

I'm the real victim

But of course Mr Milosevic's real interest is not in mounting a legal defence. Rather, he wants to continue to preach his view that the Serbs were the biggest victims of an international plot to break up Yugoslavia, and that he himself was the Balkans' greatest peacemaker rather than the chief architect of its bloody wars.

No one is quite sure what he is planning for his defence once the prosecution, probably this summer, has finished putting its case. But he could drag the trial out for another two years by demanding his full quota of time to match the prosecution's. And he may call a dozen top western politicians as defence witnesses.

The verdict against him is likely to determine whether the UN's tribunal at The Hague is itself deemed a success. Some of its sponsors are becoming restive about its costs, now running at more than $100m a year, and about its proceedings' length. President George Bush, like Bill Clinton before him, has backed the tribunal; in 2001 the Americans forced Serbia to hand Mr Milosevic over. But lately they have said

they want the tribunal—set up by the UN Security Council only as an ad hoc institution—to wind up by 2008. The Americans are also growing tired of pressing Serbia to hand over indictees to The Hague. They are said to have told Serb leaders that if Serbia hands over three more top indicted Serbs, including Ratko Mladic, the alleged chief perpetrator of the massacre of 7,000 Bosnian Muslims at Srebrenica in 1995, then others can be left to local courts.

For their part, officials at the tribunal agree that they need a “completion strategy” but cannot formulate one until the main people indicted but still at large are nabbed and put on trial, and until provision is made for fair local trials of scores of other suspected war criminals. One idea is for special courts in the region run by a mixed bench of foreign and local judges.

On that score, it must be stressed that Croats and Bosnian Muslims, as well as Serbs, have been tried and convicted at the tribunal, though so far no Kosovo Albanians have been brought to book: some may be indicted soon, while others are likely to be tried under UN law in Kosovo—for war crimes against fellow Albanians.

It is too soon to judge the Hague tribunal itself. Hopes that it would foster reconciliation have so far been disappointed, though the detailed public record of what actually happened in the Balkans may help future generations to face up to the horrors committed during Yugoslavia's break-up. And the tribunal may already be giving one valuable lesson: if the civilised world really wants to hold (and pay for) fair and public trials of those accused of appalling war crimes, it can do so—even in the most politically contentious of cases featuring the most awkward of defendants. Has anyone in Baghdad noticed?

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Kosovo's final status

Asking the unanswerable

Feb 13th 2003
From The Economist print edition

Will Kosovo stay part of Serbia? Aargh!

FOR three-and-a-half years, since NATO-led forces kicked Serbia's administrators out of the disaffected, mainly Albanian-inhabited province of Kosovo and handed it over to the United Nations, progress has been slow but steady. Serb politicians in Belgrade, their capital, seemed quietly reconciled to the province's loss. The question of Kosovo's "final status"—as an independent ethnic-Albanian country or as an autonomous part of Serbia or as something else—was not a burning one.

But suddenly it is becoming so. In the past few weeks, Zoran Djindjic, Serbia's prime minister, has declared that Kosovo is drifting towards independence and that this must stop. He has demanded talks on its final status. Serb police and soldiers, he says, must be allowed back in. The UN resolution which ended the 78-day bombing in 1999 of what was still then Yugoslavia made provision for this, but the UN has repeatedly told the government in Belgrade that the time for such a move is not ripe. The province's 1.8m ethnic Albanians, who make up a good 95% of the present population, would see the return of any Serb security forces as an attempt to reimpose Serbian authority—and would violently oppose it.

Matters became trickier earlier this month, when the old Federal Republic of Yugoslavia was replaced by a new and looser union, to be called simply Serbia & Montenegro, whose constitution declares Kosovo an integral part of Serbia. Ethnic Albanians in Kosovo's parliament have responded by planning to make a declaration of independence, while Kosovo's beleaguered ethnic Serbs in Kosovo have organised a union of Serb municipalities—and say that, if Kosovo becomes independent, its ethnically Serb northern area should secede and join Serbia proper. But if that failed to happen, Serbs in Kosovo might emulate their ethnic brethren in Bosnia and create a "Serb republic" within Kosovo. American and European policymakers are annoyed by Mr Djindjic's recent suggestion that, if Kosovo voted for independence, the Serbs in Bosnia might follow suit.

One reason Mr Djindjic is pandering to Serb nationalists is because the Americans have threatened sanctions against Serbia unless his government arrests General Ratko Mladic, the Bosnian Serb commander during the bloody war, and delivers him and two others indicted for war crimes to the UN's war-crimes tribunal in The Hague. If Mr Djindjic did so, many Serbs would be furious. The Serbs' leading ultra-nationalist, Vojislav Seselj, who says he has himself been indicted, would ensure that Mr Djindjic became even more unpopular than he is already.

In any event, the UN administration in Kosovo is worried by new threats of violence, this time from a previously shadowy group called the Albanian National Army (ANA). Unlike previous Albanian groups, it has a cell structure, making it ideal for penetration by groups of criminals keen to exploit violent disorder. This week seven ethnic Albanians from southern Serbia, close to Kosovo, were charged with terrorism. Unless it is checked, the ANA may stir up violence in Kosovo, Macedonia and southern Serbia. Wise heads in Kosovo's UN administration think this is not the moment to attend to Kosovo's final status. But it is becoming harder for them to avoid doing so.

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The French electoral system

Reform provokes outrage

Feb 13th 2003 | PARIS
From The Economist print edition

Many French politicians are appalled by the prospect of a two-party system

Get article background

WHAT idea could unite in opposition the extreme right, the extreme left and a good part of the moderate mainstream, both left and right? This week France's government—with a huge centre-right majority in parliament—came up with the answer: change the rules for France's elections to its regional councils and the European Parliament. By raising the thresholds for winning a seat, the government hopes for "stable majorities" and so, it argues, a more "effective" democracy.

Maybe. But the likely price is the electoral death of small parties, from the National Front to the Trotsky-minded Revolutionary Communist League, and a real choice for the voters of just two parties: the Union for a Popular Movement (UMP), the new catch-all party on the right, and the Socialist Party on the left. The reason is that in regional elections a candidate will have to win the support of at least 10% of registered voters to pass from the first round to the decisive second round. Hitherto the hurdle has been just 5% of the votes cast. Given abstentions, the new hurdle will amount to about 20%. In elections to the European Parliament, with one round of voting, candidates will no longer be listed nationally. Instead, there will be eight regional lists, with seats divided by proportional representation among those parties that have won at least 5% of the votes cast.

No wonder, when they do the maths, the small parties see doom. The National Front, for example, won 270 seats in France's regional councils in 1998 but says it would have won "not even a tenth" of them under the new rules. Meanwhile, though the Socialists actually stand to benefit from the change, they see a chance to embarrass the UMP by taking up the cause of the smaller parties. Hence the number of amendments—almost 12,000—that greeted the law when it was presented to the National Assembly this week.

But the amendments were a waste of paper. Seeing the impossibility of pushing the proposal through parliament on any reasonable calendar, Jean-Pierre Raffarin's government decided to invoke the constitution's Article 49-3 and pass it into law by making it a vote of confidence. The *Sud Ouest* newspaper mischievously points out that under the new law Mr Raffarin in 1998 would not have won his seat on the regional council of his cherished Poitou-Charentes.

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The European Union's constitution

Ever closer in all but name

Feb 13th 2003 | BRUSSELS
From The Economist print edition

A draft constitution for the European Union heralds still tighter integration

Get article background

OUTSIDE the convention hall, all may be discord and strife. But inside, where Europe's future is being determined, rapid headway is being made towards the continent's unification. On February 6th Valéry Giscard d'Estaing, the convention's 77-year-old chairman, issued a draft of the first 16 articles of a proposed constitution for the European Union. Article 1 proclaims, in less than ringing tones, that the Union "shall administer certain common competences on a federal basis".

Subsequent articles declare the Union's attachment to numerous worthy aims—peace, human rights, full employment, even the exploration of space. Many of the most contentious aspects of the convention's work, notably the distribution of power among the various European institutions, will be covered in clauses that have yet to be written. But there is already lots of chewy stuff for the convention's delegates and for Europe's governments to get their teeth into.

The most ardent centralisers are disappointed that the old pledge of "ever closer union", which has spurred on Europe's integration since the Treaty of Rome in 1957, has disappeared from Mr Giscard d'Estaing's draft. But in general those who want a pan-European federation centred in Brussels are happy. The draft meets many of their longstanding demands, in particular the legal incorporation of a "charter of fundamental rights" and the establishment of an independent "legal personality" for the EU.

In Britain in particular, Eurosceptics have reacted with shock to Mr Giscard d'Estaing's draft. Some of their outrage is odd, since they are denouncing already existing European law as proof of sinister new plans for an extension of European powers. Thus William Rees-Mogg, writing in the *Times*, harrumphs that under this "shameful document", "the EU would decide whether any proposed merger was legal or not". But this has been so for many years. Indeed, in 2001 the EU even managed to block a merger between two huge American companies, General Electric and Honeywell. Similarly, Article 9, proclaiming that EU law "shall have primacy over the law of the member-states", may well jolt those many Europeans who do not follow these matters closely, but it has actually been true for over 40 years.

Nonetheless, those who fear a further centralisation of power in Brussels have grounds for alarm. The French are upset that Article 11 will give the EU "exclusive competence" over "common commercial policy"—which could mean the end of France's right to protect its cultural and film industries. The killer clause for anti-federalists, though, is Article 12 on "shared competences". This lists a series of policy areas where European nations "may" legislate, but only when "the Union has not exercised or ceases to exercise its competence". It is a breathtakingly broad list, including "economic and social cohesion", security and justice, social policy, transport and public health: in other words, most of the basic stuff of national politics.

Those who like the draft say soothingly that its sweep should not be exaggerated. Just because the EU would have supreme power over transport and social policy does not mean it would have to run the number 27 bus or indeed set levels of unemployment benefit. Yet experts at the European Commission acknowledge that Article 12 has the potential for a very wide expansion of EU powers. The language could allow for anything from tax harmonisation to the creation of a pan-European social-security system.

It would be unwise to take assurances at face value that the Union has no plans to extend its powers in these ways. After all, plans can change; few people would sign a contract letting their neighbours demolish their house, based on an oral assurance that they had no such intention.

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Moldova's poverty

Outsiders aren't helping

Feb 13th 2003 | LUCERNE
From The Economist print edition

Europe's failed state

THE country is in a pickle. With only 4.4m people, its market is too small to lure foreign investors. It is landlocked, with rotten roads and dismal transport connections. Half the people live off subsistence farming but those who do grow surplus food cannot sell much of it. Forget tourism. Of all the former communist states of Europe, Moldova has fared worst in its first decade of freedom—and is now the poorest, in terms of income per person, behind even Albania. The average wage edged up slightly last year, to $70 a month.

Trade, not aid, would help Moldova most. Only a fifth of its exports reach the European Union. But for the EU's farm protection, say the Moldovans, they might be able to sell 70% of their stuff there. The EU blocks the import of the only products Moldova could compete in—wine, fruit and vegetables—while undercutting it in the Russian market with subsidised products of its own. So the EU, absurdly, is increasing aid to Moldova while denying it access to the markets that would do most to improve the lives of its rural poor.

To survive, Moldovans have left the country in droves. A good tenth of the labour force (some say a fifth) now works abroad, mostly illegally in the EU. Western Union, an American money-express service, disbursed $200m or so from these workers through its branches in Moldova last year; that money helped to keep the economy afloat. Almost the only rich Moldovans are those who smuggle their compatriots into the EU for a hefty price and then take a slice of their wages.

A radical idea, floated at a recent conference on Moldova in Switzerland, was for the EU to run parts of the country's administration—the finance ministry, for instance—itself. Odd as it may sound, ordinary Moldovans might approve. Many have lost all faith in their own politicians. Desperation and nostalgia drove them last year to elect unreformed and unapologetic communists back to power. They cannot sink much lower.

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Turkey and its Kurds

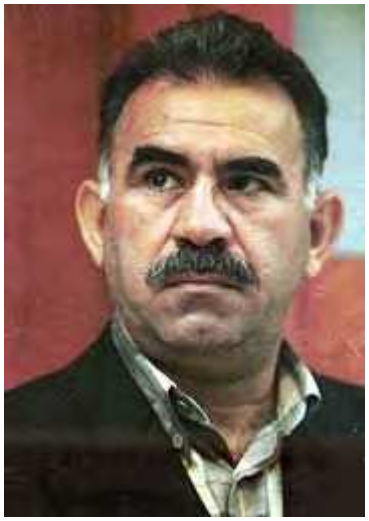
Back to bloodshed?

Feb 13th 2003 | ISTANBUL
From The Economist print edition

As war drums roll nearby, will violence between Turks and Kurds resume?

Get article background

Reuters



Ocalan, alive but alone

WHATEVER has happened to Abdullah Ocalan, the Kurdish rebel leader who was captured in 1999 and has been held in a Turkish island prison for the past three years? His lawyers and family say they have been out of touch for more than 11 weeks. Why so? One possibility is that his isolation could presage a resumption of fighting between Turks and Kurds.

One of Mr Ocalan's lawyers says that he and his colleagues have been denied access to the Kurdish leader since November 27th, the day before Turkey's new government, led by the conservative Justice and Development party, won the parliamentary vote of confidence that secured its place in power. Mr Ocalan's disciples in his separatist Kurdistan Workers' Party, better known as the PKK, have said that his isolation must end by February 15th or their guerrillas may resume their campaign of violence not just in Turkey's predominantly Kurdish south-eastern provinces but across the entire country. Several hundred Kurds have been arrested for protesting against Mr Ocalan's plight.

Since his capture, a rebel ceasefire has largely held. But sporadic clashes have recently begun to occur. In the worst incident, seven Turkish soldiers and 12 rebels were killed last month in Lice, in the country's south-east. Sensing that Iraq may be attacked soon, some Kurds may think they have a chance to benefit from the chaos that may ensue. And Turkey's generals may think they should take pre-emptive action against Kurds preparing to rise up.

As for Mr Ocalan, the Turkish authorities say he is perfectly well. They explain that his relations and lawyers have been unable to visit him only because of bad weather. That, say the lawyers, is rubbish.

Mr Ocalan, who founded the PKK, led a violent 15-year campaign for independence for Turkey's 12m or so Kurds, until he was nabbed by Turkish special forces in Kenya. After being sentenced to be hanged for treason, he abandoned demands for Kurdish independence as the price for saving his life. He called on his men to stop fighting and told them to withdraw to Kurdish-controlled northern Iraq, where about 5,000 PKK fighters have since remained. His sentence was commuted to life imprisonment after Turkey's parliament abolished the death penalty last year to boost the country's efforts to join the EU.

The Turkish government may be isolating Mr Ocalan in order to disrupt communication (via his lawyers and family) with his fighters, who apparently still obey his every word. As part of a proposed deal between Turkey and the Americans, Turkish forces are poised to enter northern Iraq if a war begins, while thousands of American troops using Turkey as their base will open a second front against Saddam Hussein's forces (see article). In addition, the Turks will try to prevent an influx of Kurdish refugees from Iraq. They are adamantly opposed to the Kurds having their own state—in Iraq or anywhere else. In other words, while keeping Mr Ocalan out of touch with his people, the Turks may be tempted to give the PKK another bashing.

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Charlemagne

Place your bets

Feb 13th 2003
From The Economist print edition

Europe's leaders are all gambling for high stakes over Iraq

IF YOU feel in need of light relief at this time of world tension, try reading the European Union's Maastricht treaty on the subject of foreign policy: “Member states shall support the Union's external and security policy actively and unreservedly in a spirit of loyalty and mutual solidarity.” Perhaps there was some transcription error, and the real text reads: “Member states shall actively undermine the Union's external and security policy in a spirit of loathing and mutual mistrust.” That certainly comes closer to capturing reality.

While the EU issues anodyne and instantly forgettable common statements on Iraq, its members busily plot diplomatic ambushes for each other. First came the Franco-German effort to seize the European initiative by building up an anti-war front. Then came the “letter of eight”, a pro-American statement issued by five current and three soon-to-be members of the EU, which was sprung on the unsuspecting French and Germans. Then NATO split open, when France, Germany and Belgium lined up against the alliance's other 16 countries, including eight that are also in the EU. Then, outnumbered in the Union, France and Germany sought a counterbalancing force outside it—and welcomed Russia's president, Vladimir Putin, into the stop-the-war group at summits in Paris and Berlin. So the EU's ideal as a fraternal club presenting a united face to the rest of the world has given way to something that looks more like a 19th-century tangle of alliances. If you glance at maps of Europe these days, it is hard to repress strange thoughts about frontiers, land mass and the control of raw materials.

Europe's divisions have dramatically raised the stakes for all the leaders involved. Some will come out of this crisis looking vindicated; others will be in deep political trouble. Tony Blair, faced with a hostile public in Britain, has acknowledged that his future is on the line. Public opinion in Spain and Italy is if anything even more hostile to the pro-American stand taken by those countries' leaders, José María Aznar and Silvio Berlusconi.

Their wager will pay off if the war is short and victorious, Iraq liberated and their countries spared any awful terrorist retribution. Mr Blair, especially, would be lauded as the man who held his nerve and preserved the transatlantic alliance. France's calculations are based on a different set of outcomes. The one with the most emotional appeal for it is France rallying opposition to the war in Europe and in the United Nations, and forcing the American “hyper-power” to back off. But if war breaks out anyway, France faces the potentially humiliating prospect of clambering on board at the last moment. The only other “happy” scenario for the French is that they stand aside and the war goes badly—raising anti-American sentiment across Europe so high that even the governments of Spain and Britain are forced to change tack. That would let France and Germany emerge as the natural leaders of a new European foreign policy on a continent finally disillusioned with American leadership.

For France, the stakes are very high indeed. A really damaging rift with the Americans could split the EU and marginalise the UN's Security Council, where France's veto is crucial to its claim to remain a world power. Still, at least France has some sort of strategy. It is less clear what end-games Germany and Russia prefer. German opposition to the war in Iraq, unlike France's, is based far more on gut pacifism than on a desire to confront America. The German press has lambasted its government's decision to go along with France in splitting NATO. By refusing to support a war against Iraq in any circumstances, the German government has backed itself into a uniquely isolated spot in Europe. Germany's diplomats are complaining that, while Mr Schröder's position is still popular at home, he is improvising with no real strategy. As for the Russians, the idea of splitting NATO and encouraging a largely pacifist Germany at the heart of Europe would have been a dream had the cold war still been on. Unfortunately for Russian nationalists, these goals are becoming realisable about 20 years too late. Hitherto Mr Putin has been aiming for strategic co-operation with America. Throwing in his lot with France and Germany risks recreating antagonisms that the Russians have spent years carefully trying to end.

America's friends in the new Europe

The sight of a Russian president being embraced in Paris and Berlin has caused a few shivers in the capitals of ex-communist Europe. Indeed, it is the attitude of countries once under Russia's sway that is the biggest obstacle to the French dream of an autonomous Europe that would stare Uncle Sam insolently in the eye. Everything about their recent history tells people in these countries that the United States and NATO are still their only real guarantors of security. As an otherwise impeccably “pro-European” Czech diplomat puts it, “One thing we learned from the 1930s—no more security guarantees from France.” A truly common EU approach could only be settled by majority voting within the Union. But count the votes in the EU of 25 countries that will take shape in 2004, and the French and Germans are in a minority in their attitude to the United States. To the epistolary gang of eight must be added five soon-to-be EU members of the “Vilnius ten”, another clutch of pro-American letter-writers from eastern Europe, as well as probably the Irish and the Dutch.

Amid all this disarray, the European Union has chosen to call an emergency summit meeting in Brussels for February 17th. The Greek government, which currently holds the EU's six-month presidency, says that only two items will be on the agenda: Iraq and making peace between the Israelis and the Palestinians. It is a well-judged choice. By discussing Iraq, the EU can demonstrate its division; by discussing Israel and Palestine it can demonstrate its impotence. Then everybody can go home, blissful in the knowledge that all are living up to their commitments under the Maastricht treaty.

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Congestion charging

Ken Livingstone's gamble

Feb 13th 2003
From The Economist print edition

Congestion charging is politically dangerous, but experience elsewhere in the world shows that it can be made to work

LAP

THIS century, mankind may well travel to Mars, but he will find it harder and harder to get across town. Since 1980, the number of vehicles in the world has doubled; in the next two decades, it is set to double again.

The costs are mounting. Few cities have reached the nadir of Bangkok (average peak-hour speed two miles, or 3.2 kilometres, per hour) where a booming business has sprung up selling empty plastic bottles to male drivers. But a 1999 study by the Texas Transportation Institute estimated that the annual cost of congestion in 68 urban areas, in wasted fuel and increased operating costs was $72 billion. Motorways in many parts of the world are also heading towards gridlock. The record for the world's longest-ever traffic jam (109 miles) is held by the road between Paris and Lyon. Even in Los Angeles, which has concreted over more land than any other city on earth, officials predict that daily commuting times on its ten-lane expressways will double over the next 20 years.

All over the world, governments are trying to deal with this creeping paralysis. Simply building more roads no longer works, because voters almost everywhere object. Demand for road space is therefore bound to outstrip supply, which means that either the jams must grow, or road space must be rationed.

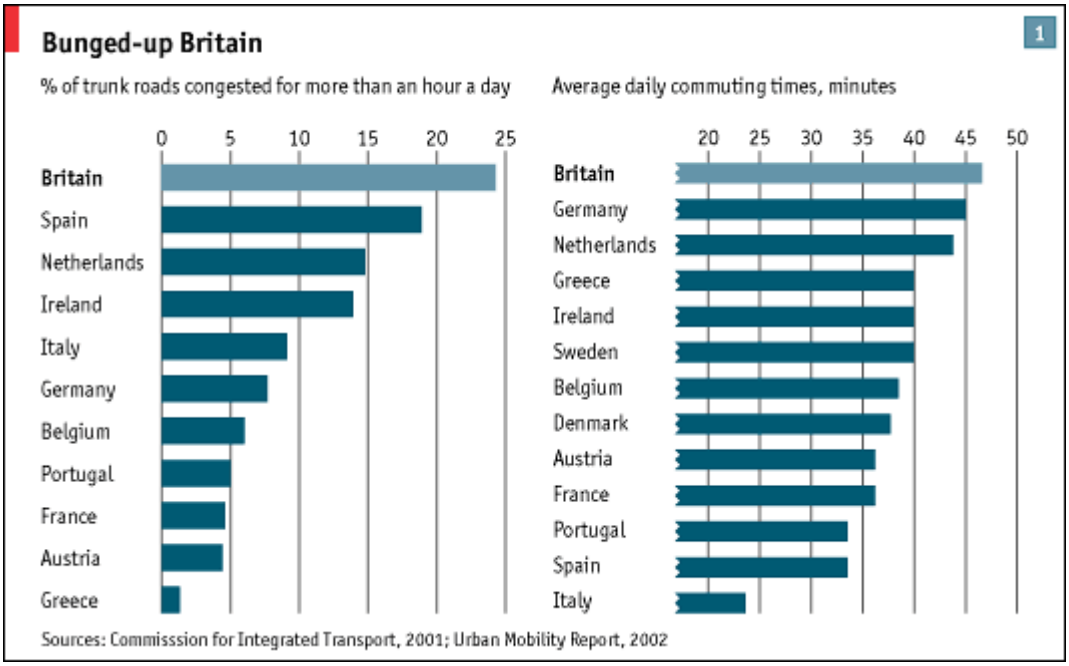
Some transport economists believe that congestion is bound to get worse because voters will never accept rationing. Anthony Downs, author of “Stuck in Traffic” and a senior fellow at the Brookings Institution, argues that peak-hour congestion in towns is inescapable. “This is a problem without a solution—at least a solution the American people will accept.” His advice: “Get yourself an air-conditioned car with a CD player, a hands-free telephone and commute with someone you really like. Learn to enjoy being stuck in traffic as another leisure activity, because congestion is here to stay.”

Ken Livingstone, London's mayor, disagrees. On February 17th, he is introducing a £5 ($8)-a-day congestion charge for those driving in eight square miles of central London. The scheme relies on 700 video cameras, which will scan the rear licence-plates of the 250,000 or so motorists who typically enter the area between 7am and 6.30pm during the working week. This information will be matched each night against a database of drivers who have paid the charge either by phone, via the internet or at shops and garages. Except for those with exemptions (the disabled, taxis, nurses, for instance) or residents (who can apply for a yearly licence at a 90% discount), anyone who fails to pay by midnight will be fined £80.

Those few cities that have successfully introduced charges have sweetened drivers with trade-offs such as better roads or lower taxes. All London's mayor is offering is a better bus service, financed by the £120m net annual revenues expected from the charge. Desirable as that may be, many of those who drive into central London (almost 90% of them from the richer 50% of the city's households) do not care to take buses. In effect, Mr Livingstone hopes that the promised benefits of a 15% reduction in traffic and a 25% reduction in traffic delays will drown the complaints of the minority who are forced to pay.

Since Britain is Europe's most congested country (see chart) such a scheme has as good a chance of being accepted in London as anywhere in the world. But it is, as Mr Livingstone admits, a gamble. In his

darker moments, the mayor says that if the charge is clearly not working after two months, he will scrap it.



If the scheme works, many other cities round the world may try it. If it fails, says Rome's traffic chief, Maurizio Thomassini, urban congestion charging will be set back for a decade.

Other European cities have used regulation, rather than price, to cut congestion. Many German and Scandinavian cities have created extensive pedestrian shopping areas. In Athens, cars are allowed to enter only on alternate days. Even in France, whose citizens are more devoted to their cars than most, the right bank of the Seine in Paris, a virtual urban motorway, was pedestrianised (and turned into a beach) for a month last summer by the city's socialist mayor.

Italian cities such as Siena and Florence have banned cars from their oldest and narrowest streets. Rome has just introduced a sophisticated electronic system, similar to London's, to control entry into its historic centre. Traffic has been cut by 25%, with only residents and essential services allowed to enter. The city's mayor, Walter Veltroni, says there has been little opposition to the restrictions.

Regulation, at least in Europe, is easier to sell to voters than charging. And as a way of protecting historic cities, it has a part to play. But it is a blunt instrument—it cannot be fine-tuned according to changing levels of demand, as pricing systems can—and it produces no revenue.

One Californian trial has shown that a hybrid approach, using both regulation and price, can be effective. In San Diego, the local authority has converted eight miles of fast lanes, reserved for car poolers and buses, by allowing single occupancy vehicles to use them for a fee. The charge varies every six minutes from 50 cents to $8 according to the amount of traffic.

Dynamic road pricing, using microwave transponders to assess congestion levels and deduct fees accordingly, may sound like a nightmare dreamt up by a mad economist. But in San Diego the high-occupancy toll (HOT) lanes have proved very popular. Although actual time savings in these lanes average only about eight minutes, drivers think the benefits are more than twice as great. A mix of commuters, not just the wealthy, use them; utility vans and delivery trucks are a much more common sight than luxury saloons. And part of the revenue goes to subsidise an express bus service along the route.

More than 20 similar projects are in various stages of development in a dozen American states. Robert Poole of the Reason Foundation in Los Angeles says that building new roads or additional road space, which offers a premium level of service in return for tolls, is the best way forward. France discovered this secret a long time ago, with a network of toll roads operating alongside its congested *routes nationales.* In Britain, the new toll motorway around Birmingham, which will help siphon off traffic from the grossly congested M6 when it opens next year, is also a value-pricing scheme.

But in many areas, such as central London, building new road space is not an option. And schemes—like London's—which involve charging people for routes they are used to getting for nothing make politicians nervous. The world abounds in road-pricing schemes which have had to be aborted because of political opposition. Austria and Hong Kong have both abandoned them. The Netherlands has agonised for more than a decade over whether to charge drivers in urban areas.

Yet some road-pricing experiments are working, and the politicians who backed them are being re-elected. Singapore, which has led the way in restraining traffic by price since 1975, has addressed many of these issues. It is small, compact and its people are used to taking orders—not very like London, in other words. But it still offers valuable lessons.

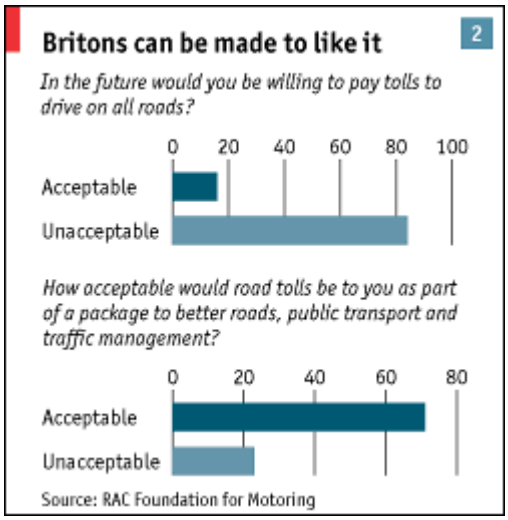
Traffic in the inner city and on expressways around the city is controlled by overhead gantries which use short-range radio transmitters to deduct charges directly from drivers. Virtually all cars in Singapore are fitted with a unit into which a debit card is inserted. The tolls, varying by time of day and type of vehicle from 50 cents to S$3 (£1.06), are designed to keep traffic moving freely at 25-35km an hour in the city and 45-65km an hour on the expressways. Every three months the fee structure is reviewed and adjusted, if necessary, to maintain these speeds.

Toll systems need to be flexible to be effective. Singapore's first charging system, in which drivers had to apply manually for a licence, reduced traffic into the city centre by 40%. The introduction of electronic road pricing (ERP) in 1998 has enabled the system to be fine-tuned with variable charging rates which can be changed every 30 minutes. The revenues are barely 60% of the previous manual scheme, but electronic tolling has reduced congestion in the inner city by a further 15%.

A recent visit suggests the system is working well. Even some of the city's obstreperous taxi drivers accept that it has reduced congestion. People were softened up at the start with a reduction in the very high vehicle-ownership taxes as soon as congestion charging was introduced. And the city's Land Transport Authority has been careful to listen to drivers' complaints. The fine for not having a valid cash-card was slashed, after an outcry, from S$70 to S$10.

You don't have to go to Asia to find a road-pricing scheme that works. More than a decade ago, three Norwegian cities—Oslo, Bergen and Trondheim—set up charging schemes, in which cars were charged by electronic tagging, to raise revenue for road tunnels and other transport improvements. Though the charges were low, they have reduced traffic by nearly 10%. And they have steadily become less unpopular. In Trondheim, 72% opposed them at first; five years later, only 36% did. Tolls in Trondheim now vary depending on the time of day. The schemes were meant to end after 15 years, but are now expected to be permanent.

So what makes a road-pricing scheme work? Of course, locals must feel that their roads run better. A scheme which diverts traffic, and thus worsens jams in some areas while improving them in others, will meet with opposition. But other features matter, too. The Norwegian experience suggests that drivers can be persuaded to accept charges if the cash is used for something they approve of. Britons seem to take the same view (see chart).



Privacy is another key issue. Hong Kong's charging scheme was abandoned partly because errant spouses thought their whereabouts might be tracked. The latest microwave tolling technology, which uses in-car meters equipped with smart cards to deduct charges, effectively safeguards this because only violators' number-plates are photographed.

Another concern is fairness. There is some surprise that Ken Livingstone, London's mayor, a barely-reconstructed socialist, should be staking his political future on a regressive tax. Why, after all, should poor motorists pay a larger proportion of their income than rich ones to get into London?

Admittedly, few things are more egalitarian than a traffic jam. But whether the congestion charge is perceived to be equitable or not depends to a large extent on how the revenues from pricing are spent. If they are used to subsidise services predominantly used by lower-income groups, such as buses, then the charge won't be seen as unfair.

Advances in technology will help. The system London is introducing is cumbrous—requiring cameras on every road into the city centre—and inflexible—prices will not change according to congestion levels. But the next generation of pricing technology using global positioning satellites (GPS) needs little infrastructure and is extremely flexible. Cars fitted with satellite receivers can easily be charged via digitised on-board maps according to time, place and distance; and there is no risk that traffic will be diverted as drivers try to skip paying a fee by choosing an alternative route. At present such a system would cost several hundred pounds a unit, but that is likely to fall to less than £100 with sufficient demand.

Several European countries, including Germany and Britain, are planning to introduce satellite charging for lorries within the next four years. Proposals from the European Commission for such a scheme, which include tolls of *euro*4 (£2.65) for each 10km within a city, have met with much opposition and are being sat on; but if the plan sees the light of day, and works, a similar scheme for cars could be introduced within a decade. The Commission for Integrated Transport, an advisory body to the British government, claims that such methods could cut congestion by nearly half in Britain.

Congestion will always be a problem, but it can be managed sensibly. There is no reason why man should not be able to get to Mars and across town.

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Politics and congestion

Fuming

Feb 13th 2003
From The Economist print edition

How the transport minister tried to undermine the congestion charge

IT SEEMS odd, as Iain Duncan Smith, the Tory party leader, pointed out this week, that Tony Blair, a man with a view on everything, is the only man in London with no opinion on the congestion charge. Parliament's transport select committee also commented on the government's curious silence on the issue: it found it “a matter of serious concern that the government is not at present prepared to make a more positive and open contribution to the national debate on congestion charging.”

There are good reasons for Mr Blair to keep his distance from the congestion charge. If it cuts traffic delays in London—and thereby allows the government to get some way towards its over-ambitious target of reducing congestion by 6% by the end of the decade—ministers will be quick to take the credit for introducing the legislation which allowed it to be brought in. Charging will then probably be introduced in cities all over Britain in the next few years. And if it fails, the prime minister will not want to have been seen supporting it.

Some in the Labour Party long for it to fail. Its sponsor, Ken Livingstone, always on the far left of the party, was thrown out of it because he insisted, against the prime minister's wishes, on standing as mayor of London. Worse still, he won. Plenty of his former party colleagues would be delighted if the scheme was a disaster. A major computer foul-up or even mass civil disobedience, some hint, would not be unwelcome. Mr Livingstone would then be ejected from office when he stands for re-election in a year's time.

The minister for transport, John Spellar, has never hidden his dislike of congestion charging. But until now, it has not been known that he has actively sought to undermine the scheme. Whitehall sources say that the minister asked the Driver Vehicle and Licensing Authority in Swansea not to co-operate with Transport for London. He later tried in vain to persuade civil servants to prepare a case for judicial review. Last he sought to delay the implementation of congestion charging by refusing to give his assent to the way the revenues were to be spent. Mr Spellar has accused the government-funded Commission for Integrated Transport, which supports road pricing, of pursuing “a narrow anti-motorist agenda”.

Mr Blair eventually got so fed up with these antics, which were directly contrary to government policy, that he told the then transport secretary, Stephen Byers, to put a stop to them. Since that prime ministerial reprimand, Mr Spellar has kept a low profile, refusing to be interviewed or answer written questions for this article.

The government worries that transport will be Labour's albatross at the next election. One sign of the prime minister's concern is that he has decided to chair a weekly ministerial meeting reviewing transport developments, particularly in the capital. Mr Blair at least is on speaking terms with Mr Livingstone—unlike the chancellor, Gordon Brown, who has long loathed the mayor. This feud has not done the capital's transport system any good. Robert Kiley, the American appointed by the mayor to head Transport for London, has been trying in vain for more than 18 months to meet the chancellor. “I am not sure he exists,” he says.

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Celebrity privacy

Wedding balls

Feb 13th 2003
From The Economist print edition

A case that could lead to a privacy law

IT WAS, said the sobbing bride, an “appalling and very upsetting shock”. The happy couple's “peace and happiness evaporated”. Not because their $3m wedding did not meet expectations. Nor because of any misbehaviour by the groom (that is taken care of by a detailed prenuptial agreement, which is reported to award her a lump sum each time he strays). No, what has really upset Catherine Zeta Jones, a big film star, and her husband, Michael Douglas, an even bigger one, is that, having sold the exclusive rights to photograph the wedding to one celebrity magazine, for £1m, that deal was scooped by a rival rag that managed to get hold of some clandestine snaps of the event.

The resulting court case is the talk of the town—at least those bits that find war gloom, street crime and financial meltdown too boring for words. The Douglases want joint damages of £500,000—a token sum, Ms Zeta Jones says, but enough to deter such outrages in future.

The case continues. But behind the froth and fury are two important points. One is whether celebrities really own their own images. Ms Zeta Jones says, in effect, that any published picture affects her market value. The secret wedding photos showed her looking fat. “They were very offensive, blurred and fuzzy,” she told the court. The *Sun*, Britain's biggest-selling tabloid, mockingly called her “Catherine Eater Jones”. That, supposedly, could hurt her earnings.

Second, there is the general question of privacy. Britain—unlike some other countries—does not have a privacy law, although the right to privacy (as well as freedom of expression) is enshrined in the European Convention on Human Rights. Judges have been trying to work out what this means. In one high-profile case last year, Naomi Campbell, a model, sued the *Daily Mirror* for reporting her attending a drug addiction clinic. Although she won the first round, she lost on appeal.

If the Douglases win, it will make legal history. Celebrities and nonentities alike will have the right to be out of the limelight when it suits them. That will worry defenders of the free press a bit—and editors of tabloid newspapers a lot.

That may have influenced the coverage of the case. The *Daily Mail*, the country's biggest-selling mid-market tabloid, called Ms Zeta Jones “selfish, greedy and ridiculous”. That must hurt more than a few podgy pics.

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Anti-war movement

Bombs away

Feb 13th 2003
From The Economist print edition

Britain's anti-war movement is booming but divided

IT IS a rum cause that brings together retired generals and ambassadors and the leader of Britain's third-largest political party, the Liberal Democrats, with outfits such as the Revolutionary Communist Party of Britain (Marxist Leninist), which supports North Korea, and WOMBLES, the White Overalls Movement Building Libertarian Effective Struggles, a body that exists to promote “anarchist ideas, libertarian solidarity, autonomous self-organisation and humour”.

The Stop the War Coalition, which is organising the demonstration due this Saturday in London, expects up to a million people to turn out. Public opinion certainly points this way. A poll in the *Times* this week shows nearly nine out of ten Britons think that the weapons inspectors should be given more time. Women are particularly sceptical about the case for war: 55% of those polled agreed with the statement “Tony Blair is George Bush's poodle” compared with only 46% of men. Labour's popularity has slumped; the Liberal Democrat leader, Charles Kennedy, who opposes the war outright, is the only party leader who hasn't taken a battering in the polls lately.

But the rally's organisers come from a narrower base than its supporters. At a pre-march meeting this week in Haringey, north London, the muddled and worried of middle England were much less in evidence than the sort of people for whom a political rally in an ill-lit room in a municipal leisure centre is a good night out. Two warring Trotskyist sects were selling their newspapers at the entrance. The speakers were practised political hacks, mostly from the unionised crannies of the public sector. One speaker from the floor gained a ripple of applause when he suggested storming the American embassy.

The hard-left scent of the march deters some moderate opponents of the war. Although the Conservative Party is almost as badly split as Labour on the issue, no Tories will be speaking at the rally. “They haven't got in touch with us,” says Andrew Burgin, the man in charge, sniffily. Although Iain Duncan Smith, the party's leader, is hawkish and pro-American, many back-benchers and party members are deeply sceptical, not least because they distrust Tony Blair so strongly on everything else.

Senior anti-war Tories (not marching) include John Gummer and Douglas Hogg, both former cabinet ministers, and Peter Ainsworth, until recently the shadow spokesman on rural affairs. Mr Gummer worries that the theological criteria for a “just war” are being ignored. Uniquely in recent history, he notes, not a single religious leader backs war now.

Although most of Britain's Muslim groups, ranging from moderate to extreme, are involved, the march organisers have not managed to rustle up any representatives of the Iraqi opposition. That's understandable, since gentle-minded war-haters have little idea what to do about brutal dictators. One left-wing group, the Alliance for Workers' Liberty, which trumpets its ties with Iraqi Communists, has thrown logic to the winds and adopted the magnificently hopeful slogan “No to War, No to Saddam”.

Also conspicuously absent from the organised opposition to the war is a clutch of establishment types who worry publicly about its justification, practicality and consequences. They include Lord Wright, an Arabist and former spymaster, as well as senior retired military men such as General Sir Roger Wheeler, formerly head of the army, and General Sir Michael Rose, a former UN commander in Bosnia.

Who's against the war

What	Why	For example
Pacifism	War kills people	Church groups
Multilateralism	War okay only with UN backing & parliamentary vote	Labour politicians
Isolationism	Where's Britain's interest?	Conservatives
Greenery	War bad for environment	Countryside lovers
Anti-Zionism	Attack Ariel Sharon instead	Muslims
Leftism	Make Tony Blair sweat	Trotskyists, communists
Pragmatism	War okay in principle but won't work in practice	Arabists, ex-generals
Anti-Americanism	America too brutal and Bush too stupid	The BBC
Fear	War makes Britain terrorist target	Most people

It all adds up to a large but not yet lethal problem for Mr Blair. His best chance of defusing the anti-war movement is a second resolution by the UN Security Council. That would expose the large but buried differences among his opponents, between those who would oppose the war under any circumstances and those who will reluctantly accept an attack on Iraq if the right hoops are jumped through first. It would also attract the support of more than 60% of the population.

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About sponsorship

The economy

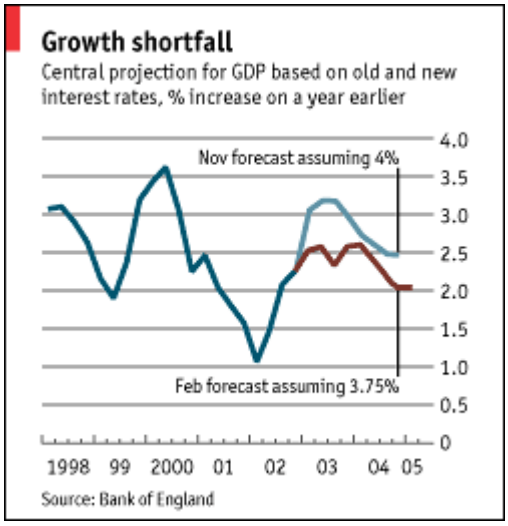
Gloomier outlook

Feb 13th 2003
From The Economist print edition

The Bank of England yanks down its growth forecast

THE Bank of England's decision to cut interest rates on February 6th caught the City on the hop. Embarrassed analysts and traders speculated that the Bank might know of something nasty that was about to emerge from the economic shadows. Unfortunately for the conspiracy theorists, the reality revealed in the quarterly *Inflation Report* on February 12th was simpler: the Bank has become more pessimistic about growth.

Last November, the Bank's central forecast for growth in 2003 was 3.1%. Now its monetary-policy committee (MPC) thinks the economy will grow by about 2.5%. Even though the Bank has cut rates, the prospects look even weaker in 2004 with growth slowing to 2% by the end of the year. Without cheaper money, growth would have been even more sluggish, dragging inflation below the government's 2.5% target by the start of 2005. Since changes in monetary policy take about two years to have their full impact on inflation, the MPC cut rates from 4% to 3.75%.



The Bank has become gloomier about growth for two main reasons. It now expects the world economy, especially the beleaguered euro area, to recover more slowly. It also thinks that the further falls in equity prices since November will curb business investment and dampen consumer-spending growth.

The MPC has had to grapple with the economic implications of a war in Iraq. It says that the main effect on its forecast is to increase the range of possible outcomes. A short, successful military conflict would improve the outlook for world growth, by reducing the oil price and by spurring a recovery in equity markets. It could also bring to a halt the appreciation of the euro against the dollar that is hurting the export-reliant euro area. But a long war (or a longer phoney war) could undermine growth and asset prices.

At home, the main risk is that lower interest rates will prolong the house-price boom. Consumer-spending growth would then remain buoyant rather than slackening as expected. Stronger growth in demand would put upward pressure on inflation, already projected to rise on the MPC's central forecast from its current rate of 2.7% to about 3%. Indeed the Bank is now forecasting that it will not fall back to 2.5% until the end of 2004.

But Mervyn King, the Bank's deputy governor, said that house-price inflation appeared to have passed its peak. The MPC is expecting it to slow from its present annual rate of 25% to zero over the next two years. This would reduce the stimulus to consumer spending from households releasing some of their wealth by borrowing against their properties.

The Bank's new forecasts make Gordon Brown's look even more over-optimistic. Presenting the pre-budget report last November, the chancellor said he was expecting growth of 2.5-3% in 2003, accelerating to 3-3.5% in 2004. These forecasts now seem certain to be cut in the budget, which will in turn feed through to even higher borrowing. The economy is proving resilient, but it is no longer flourishing as it did in the government's first term, when it was Labour's trump card—and Mr Brown was Labour's strongman.

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Trade worries

How worrying is that deficit?

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Not as alarming as it looks

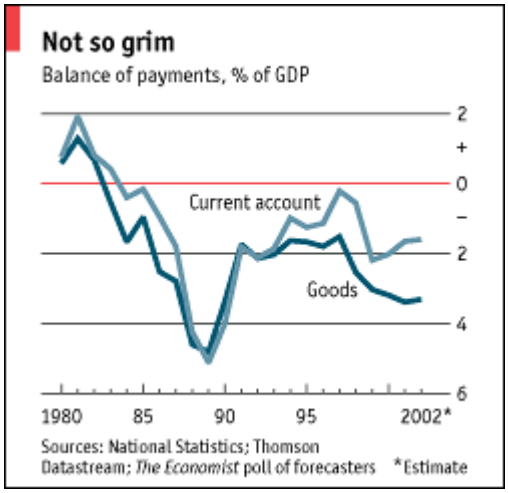
TIME was when deficits toppled governments. Harold Wilson's defeat at the polls in 1970 has often been blamed on a rogue set of monthly figures which showed a deficit when Labour had made much of its success in achieving a surplus. So the fact that last year's trade deficit of £34.3 billion was the highest since records began in 1697 has been greeted with considerable alarm. Most of it is misplaced.

For one thing, although the trade deficit may be the biggest since records began, so too is GDP. It always is, so long as the economy keeps growing. As a percentage of GDP, the deficit narrowed slightly from 3.4% in 2001 to 3.3% in 2002—a lot lower than the record high of 4.8% of GDP in 1989 when the economy was dangerously over-heated.

Second, the headline total is misleading in that it focuses only upon goods, rather than goods and services. Pull focus to this overall trading balance and the picture looks less worrying. The deficit on goods and services narrowed from £22.3 billion in 2001 to £21.1 billion in 2002. In relation to GDP, it declined from 2.3% in 2001 to 2.0% in 2002. In 1989, it amounted to 4.1% of GDP.

Finally, Britain does not simply trade in goods and services but also earns (and pays) investment income. In recent years, the surplus on this account has been substantial. So when investment income is included with goods and services in the overall current account, the picture brightens still further. *The Economist*'s panel of economic forecasters is expecting a current-account deficit of 1.6% of GDP in 2002, a little lower than in 2001 and a long way below the record high of 5.1% in 1989.

Unlike in the late 1980s, last year's big trade deficit is not a warning sign of an over-stretched domestic economy. The real reason for concern is that the most recent trade figures appear to reveal renewed weakness in Britain's trading partners. In the last quarter of 2002, exports of goods fell by over 5% compared with the previous three months. A weaker world recovery is one of the main reasons why the Bank of England cut interest rates on February 6th.



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Pay and privacy

Intimate details

Feb 13th 2003
From The Economist print edition

Greed and envy are coming soon to a workplace near you

BRITONS have taken to flaying themselves on chat shows in recent years, airing Oprah-style confessions ranging from bedroom peccadillos through drug use, mental illness and nearly everything else that ails. But there is one topic that is still likely to be greeted with frozen stares: just try asking your colleagues how much they get paid.

Thanks to a new employment law that takes effect in April, introduced by Patricia Hewitt, trade and industry minister, this taboo may yet fall. It will force bosses, when asked by employees, to reveal the pay details or salary ranges of employees doing comparable work. The rules are aimed at helping women overcome the pay gap that continues to plague them. Recent surveys have shown that women are still paid on average around 10-20% less than men in comparable jobs.

For a long time, of course, pay discrimination on the basis of sex has been illegal. But making a discrimination claim is an arduous and lengthy process. The new rules, say Elaine Aarons of Eversheds, a City law firm, aim to take the stigma out of trying to right pay discrepancies since no accusations need to be levelled in requesting the pay information. The key, says Ms Aarons, is that bosses will have to do a better job in documenting the reasons for pay disparities. In future, pay and bonuses will have to be tied to some visible measure of performance. That might reduce the number of claims, such as the one against Investec Henderson Crosthwaite, an investment bank, by a female analyst, alleging that her bonus was an insultingly low fraction of her male colleagues'. (She lost.)

Many, however, think that the new rules will have the opposite effect, providing fodder for ever more tribunals. Bosses see the potential for “fishing expeditions”, in which employees take a punt that they can boost their pay by whingeing about others who, quite justifiably, are paid more. The Engineering Employers' Federation has complained that disclosing employees' pay violates their right to privacy. Nonetheless, might that be a good thing?

To be sure, the new rules put Britain far in front of its continental peers in making pay more transparent. That might be a good thing for employees if not for bosses. Indeed, some management gurus have pushed the idea that details of everyone's pay should be public within a company. Directors of listed companies, poor things, already have their pay exposed before all. Employees lower down the ranks could benefit from such openness too; they might be disabused of wild fantasies of what Sally down the hall is earning, or they might even be encouraged to perform better. Bosses might do best simply to post all salaries above the water cooler.

But when pay details have been unveiled—either deliberately by the management, or accidentally, by bosses leaving pay lists on printers, or by e-mails from disgruntled employees in the payroll office—chaos ensues. Burlington Northern, an American railway, was once confronted with a website that displayed the salaries of many of its managers. Recently the Harvard Business Review created a fictional case study based on a real-life episode. Some embarrassments were predictable, others not so. There were glaring gaps between men and women, and other, less obvious, differentials: immigrant programmers, for example, found themselves worse off than the native-born. Bosses had to deal with employee rage.

It can't be long before Britons' salary details become as well known as the latest shenanigans at the office Christmas party. Bosses—and the overpaid—beware.

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Scottish land reform

Buts among the bens

Feb 13th 2003 | EDINBURGH
From The Economist print edition

The law of unintended consequences is alive and well in Scotland

SINCE the Scottish Parliament embarked on an ambitious land-reform programme to give tenants the opportunity to buy their land, the glens have been alive with accusations of Mugabe-style land grabs. But the main victims, so far, have been not landlords but tenants.

This is not surprising, given the impact of previous attempts in Scotland (and elsewhere) to secure tenants' rights over their land. In 1991 a law, in effect, gave security for life to tenants and their children. Landowners became reluctant to let farms, fearing that they might never regain control of the land. The result is that, crofts aside, the proportion of Scotland's 16,800 farms which are rented has fallen from 32% to 17% since 1982. The Scottish Executive is now trying to remedy this by allowing tenancies with set lease periods, which farmers hope will open up the rental market.

Now there are problems with another type of landholding agreement—a limited partnership agreed between a landlord and a tenant. Landlords devised these agreements, which cover about 16% of farms, to get round secure tenancy problems. But now landlords are busy tearing them up, and tenants are protesting.

The Scottish Landowners' Federation (SLF) insists that nobody has been evicted (a year's notice is being given in most cases) and that, in any case, landowners are simply preparing to replace the agreements with the new set-lease tenancy contracts. But tenants don't believe that.

Angus McCall, who rents a farm in Sutherland and runs a tenants' action group, says he knows of 50 tenants whose partnership agreements are being dissolved, and suspects there may be hundreds more. He thinks that landowners want to take back their land, fearing that the Scottish Executive will give these tenants the right to buy. The Scottish Executive denies it, but is sufficiently alarmed by what is going on to say that any landlord wishing to dissolve a partnership must now go to a tribunal.

A law passed last month giving the public enhanced rights of access to land also seems likely to go wrong. Marian Silvester, the SLF's access adviser, says that some landowners are now worried that lots more people will tramp across their land, exposing them to bigger liability insurance risks if someone injures themselves on a rickety stile or a bridge normally only used for sheep herding. The easiest solution is to demolish such structures. But that, of course, would make public access much more difficult.

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Bagehot

The boy stood on the burning bridge

Feb 13th 2003
From The Economist print edition

Public support for war continues to fall, but that is not Tony Blair's biggest worry

Get article background

A FORTNIGHT ago, Bagehot argued that although Tony Blair's support for America over Iraq had left him politically exposed, the extent of his vulnerability had been somewhat exaggerated. Popular opposition to war could be largely overcome by a United Nations resolution specifically authorising military intervention. Even without it, and even though a large number of his own MPs would probably vote against him, Mr Blair would still get a substantial majority in a House of Commons vote on the war. Once British forces were in harm's way, if past experience was anything to go by, patriotic support for "our boys" would sweep away many of the doubts about their mission. As long as the war was swift and successful, the prime minister would be home free.

All of this still holds true, but after a bad few days, it has become harder to believe in a happy outcome for Mr Blair.

The one thing that could transform things for him is robust condemnation by Hans Blix, the chief UN weapons inspector, on February 14th (a day after *The Economist* goes to press) of Iraq's continued lack of co-operation. Britain has more confidence in Mr Blix than the Americans do. Government sources say that the inspectors have several times come close to nabbing the Iraqis in the act of sanitising suspect sites and that Mr Blix is determined not to allow Saddam Hussein to make him look a chump a second time, as he did when Mr Blix ran the International Atomic Energy Agency. In his cool response to the suggestion by France and Germany that he should be given many more inspectors, Mr Blix showed that he understands that the issue is not his resources, but Iraqi compliance. Against that, others question whether this amiable Swedish civil servant is really the man to fire the starting gun to war—which is what an admission that the inspectors' task was hopeless would amount to.

Apart from the hope that Mr Blix may yet ride to the rescue, things could hardly have gone worse for Mr Blair of late. On February 6th, the day after Colin Powell briefed the UN, it emerged that the government's latest Iraq dossier—which Mr Powell referred to in glowing terms—was not, as claimed, the product of high-grade intelligence assessments, but the clumsy plagiarism by some minions in the Downing Street press office of an American PhD student's thesis, stumbled upon thanks to an internet search engine.

This embarrassment has fed the widespread and growing cynicism about the motives for war, as an ICM poll conducted for the BBC in the wake of the "dodgy dossier" revelations confirmed. When asked why Britain and America wanted to attack Iraq, the most popular response was "to secure oil supplies". Meanwhile, 60% of those polled said that the case that Iraq still possessed weapons of mass destruction had not been made. Most worryingly for Mr Blair, only 9% thought that Britain should go to war without a fresh mandate from the UN, compared with 34% in September and 22% in January. When, this week, 1,500 anti-terrorist police and soldiers in tanks were sent to defend London's Heathrow airport from the possibility of missile attack, a common reaction was that this was yet more government propaganda, designed to scare the nation into thinking its security was at risk.

Que sera, sera

Frustrating though this is for Mr Blair, he is resigned, almost to the point of fatalism, to the public's immovable scepticism. No matter how large the anti-war rally due to take place in London on February 15th turns out to be, it will not alter his course. Old friends say that, of late, he has lost his old, near-

obsessive, enthusiasm for focus groups. The services of his polling guru, Philip Gould, are in little demand these days. Once so eager to please, Mr Blair no longer cares very much what people think of him. As long as he reckons he is doing the right thing, he is content to be judged by what happens.

But while he may be strangely calm about his problems on the home front, the increasingly bitter division between, in Donald Rumsfeld's phrase, “old Europe” and America is worrying him deeply. Until a week or so ago, the line from Downing Street was that the French were just doing their usual thing and would eventually scramble on board, and that it was always unrealistic to expect much from the Germans, who had demons of their own to contend with. But since the slanging matches last weekend in Munich, the emergence of President Chirac's “axis of peace” and the row within NATO over shipping Patriot missiles to Turkey, a great deal has changed.

It is not, as some have suggested, that Mr Blair will be forced to choose between Europe and America. It is that the central aim of British foreign policy for most of the post-1945 period—to which Mr Blair has devoted greater energy and passion than possibly any of his predecessors since Winston Churchill—is now in real jeopardy.

The prime minister will continue to insist that Britain should be the bridge between Europe and America. But if the gap is too wide to be spanned, even the best of bridges will disintegrate. Transatlantic spats are nothing new, but without the cold war glue that could once be relied upon to bound fractious partners back together, they have taken on a different and more rancorous quality. It is September 11th that has made this one particularly dangerous. Few Europeans comprehend America's feeling that it is being betrayed in its hour of need—and, thus, the lasting damage that Europe's leaders may now be doing.

Mr Blair understands this all too well and fears the consequences. He knows that for Britain to retain its influence in the world—and especially in Washington—a more or less cohesive European Union and a NATO that still counts for something are both essential. Right now, neither seems very likely.

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Conglomerates

A European giant stirs

Feb 13th 2003 | MUNICH AND ERLANGEN
From The Economist print edition

Siemens, Europe's strongest conglomerate, is ready to make some big acquisitions

DEDICATED followers of corporate fashion no doubt see little reason to get excited about Siemens. After all, what could be more passé than to be a conglomerate (how 1970s) at a time when even the once-adored queen of diversification, General Electric (GE), has taken a tumble? Worse still, to be a conglomerate that is not merely European but based in Germany, the continent's sickest economy. Poor old Siemens has long endured a reputation for dullness even among conglomerates. One ancient joke observed that the firm could not possibly be responsible for a baby found abandoned on its doorstep as it was incapable of such creativity, let alone of finishing a project within nine months. Yet, for all that, could it be that Siemens's moment has now arrived?

That is certainly the belief of Heinrich von Pierer, chief executive since 1992 of the maker of everything from trains to power generators to mobile telephones. Although he initially imagined he could change the group's notoriously bureaucratic culture within two or three years, at least he has finally done so in ten. His efforts to change the firm having now borne fruit, the challenge now is “how to accelerate change,” says Mr von Pierer.

There seems little doubt that Siemens is about to take part in that other terribly unfashionable activity: making mergers and acquisitions, probably on a grand scale. This strategy made little sense when it was all the rage in the late 1990s, because purchase prices were so high and putative benefits so speculative. Ironically, now, when hardly a boss has the courage to flourish his corporate cheque book, share prices are so beaten down that Mr von Pierer may have his pick of bargains galore.

Not long ago, critics regarded Siemens as a lumbering, over-large conglomerate fit only to be broken up—not to buy its way to an even greater girth. The firm is certainly a giant. Even after recent lay-offs of 30,000 people, Siemens has a 430,000-strong workforce—75,000 of them in America, where it is one of the largest foreign employers. Philips, a big European rival, employs 170,000 globally; Alstom, another, a mere 119,000. Siemens's turnover last year was *euro*84 billion ($79 billion)—of which only *euro*18 billion was in Germany. If spun off, almost all of its 13 operating divisions would qualify for Germany's main stockmarket index in their own right.

Vorsprung

Although the stockmarket does not distinguish Siemens from its main rivals—all now trade at share prices well below their recent highs—on closer inspection Siemens has emerged from the 1990s looking smarter than many of its peers. Its balance sheet is strong and it reported *euro*2.6 billion of post-tax profits last year despite tough market conditions. It has avoided the disasters that have afflicted Alstom and ABB, European rivals that have flirted with bankruptcy due to slack management and poor financial controls. Nor has it suffered anything like the sudden fall from grace last year of GE, although the American giant remains a formidable competitor, not least to Siemens in the power, lighting and medical-equipment businesses.

Under Mr von Pierer, Siemens has transformed its internal culture in ways that have helped it avoid the worst follies of its rivals and to build its present platform for expansion. Strong risk management is at the heart of this change. Heinz-Joachim Neubürger, the firm's finance director since 1998, contrasts Siemens's volume-driven approach of a decade ago with today's focus on “economic value added”, a popular way to make managers price capital properly when deciding to invest. An internal accounting system based on America's generally accepted accounting principles (GAAP) gives managers a standard picture of the group and makes them report on the same basis. Quarterly meetings of top managers have been given added spark, with the least successful division or region asked to present first.

Although the firm gives plenty of latitude to its divisional and regional managers, it now monitors closely the signing of contracts and the execution of projects. At any moment, Siemens has around *euro*30 billion of industrial projects under way. Under Mr von Pierer, some 10,000 specialist project managers have been trained to ensure that things do not go awry.

As a result, Siemens has avoided the mistakes of, say, Alstom, which created horrible problems for itself by offering vendor financing and generous contract guarantees to its customers. Siemens was especially wary of financing customers in the third generation (3G) telecoms sector. Its financial-services arm has not been allowed to grow so big that it dominates the company, unlike its equivalent at GE.

Siemens has also survived with relative ease—although not without a few scares and mistakes—fundamental changes in some of its biggest markets. The transport business evolved from a supply chain based on many small suppliers (Siemens originally made only the electrical systems for trains) into one reliant on so-called “system providers”, firms that offer complete locomotives or trains. To compete, Siemens had to buy and integrate a dozen firms. Five years ago it lost money. Now it is profitable as it battles with Alstom and Canada's Bombardier.

Similarly, in power generation, a leading position in nuclear became a liability when that market dried up. The group's conventional power business a decade ago was tiny, turning over maybe *euro*500m a year. Now its revenues exceed *euro*9 billion. Siemens's medical-equipment division lurched into crisis in the mid-1990s, culminating in heavy losses and a management reshuffle. It now earns over *euro*1 billion a year and has switched its approach from simply making clever machines to liaising closely with customers so that it develops only what the market wants.

Above all, Siemens regards free cashflow as a proxy for the health of its portfolio of businesses. Mr Neubürger reckons it needs *euro*1 billion of cashflow after dividends and taxes as a safety-net to “ensure strategic manoeuvrability”. Last year it totalled *euro*3.4 billion. “Perhaps we need a little more confidence in ourselves,” muses Mr Neubürger. The next few months will show whether Siemens has indeed become confident enough to flex its muscles.

So what might Siemens acquire? Roland Berger, arguably Germany's leading strategy consultant, points to several sectors where Siemens could surprise rivals. One is car parts, where a weak competitor such as Valeo, a French firm, could be vulnerable to a bid. Or it could make a long-term bet on telephone infrastructure, an awful business today for the likes of Lucent, Ericsson and Motorola, but with big potential for the future. All three could be targets, especially the last two, which would also beef up Siemens's mobile-handset business. Another possibility is a big acquisition or joint venture in Japan, perhaps involving Toshiba or Hitachi.

The danger that the markets might punish Siemens for engaging in unfashionable M&A does not bother Mr von Pierer. After all, in 1998, when he announced the acquisition of Westinghouse, a power firm, shares in Siemens plunged by 11% in one day: “It was probably the best deal I ever made,” he says. Until, his shareholders must now hope, the next one.

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BP in Russia

Not beyond petroleum

Feb 13th 2003 | MOSCOW
From The Economist print edition

Why a big move by BP into Russian oil has great significance

VOTES of confidence do not come much bigger. The $6.75 billion that British Petroleum (BP) this week said it would pay for half of the Tyumen Oil Company (TNK), Russia's fourth-largest oil producer, is a huge boost for Russia. It is the biggest single foreign purchase of Russian equity ever, on its own worth more than double last year's total foreign direct investment in the country.

In recent months, Russia has been moving on to the radar screens of a growing number of deal-minded foreign corporate executives and investors—not just in the oil industry—in most cases for the first time since foreigners were badly burnt by Russia's devaluation and default in 1998. BP's deal is being seen, both in Russia and abroad, as stamping a seal of approval on the country's progress since the financial crisis of 1998 and, more broadly, since the asset-grabbing chaos of the early post-Soviet years. Other multinationals are now expected to take a closer look at Russia, and Russian firms will certainly increase their efforts to tap multinationals for their expertise and money.

It is not just the fact of BP's investment that is significant; it is its manner. Rather than a cautious 25% plus one share—the minimum blocking stake—BP went for an equal partnership with the Russians, probably the maximum foreign ownership that is politically acceptable in Russia. (Strictly, BP is not buying half of TNK, but joining it as half-owners of a new firm that will include all of the existing TNK plus BP's existing Russian assets.)

Nor can anyone accuse BP of naivety, given its past experience of Russia and its new partner. In 1997 it bought a stake in Sidanco, a small oil firm, only to end up in a bitter fight with TNK over some of Sidanco's assets—a fight that highlighted the crookedness then commonplace in Russian business and the loopholes in Russian law. BP lost the battle, and some of its money. For BP to return to strike a deal with its former foe, surely things must have changed fundamentally in Russia?

Up to a point. BP's experience means that it may be better placed than most foreign firms to navigate the still risky Russian business world. Other oil giants, such as ExxonMobil and Royal Dutch Shell, have a handful of joint ventures and production-sharing projects in Russia, but none has yet braved partial ownership, as BP began to do six years ago. Minority-shareholder abuse, although less common than it was, remains a big factor scaring outsiders away from Russian companies.

BP's investment may also say as much about the difficulties facing the oil giant as about the joys of Russia. BP badly needs new reserves. Recently, its share price has been battered by investors due to its failure to meet oil-production forecasts, which it lowered three times in eight weeks last autumn. Between September and January, BP's market value fell by around a quarter, or $45 billion. This embarrassed its boss, Lord Browne, whose carefully polished reputation as the golden boy of British business lost some of its shine. Investors concluded that, although Lord Browne's strategy of cuddling up to the green lobby with his talk of taking the firm “beyond petroleum” was all well and good, they did not want it to be at the expense of producing lots of oil (and profits) in the meantime.

BP has old, declining and relatively less profitable fields in places such as Alaska and the North Sea which it has been trying to replace with new, more profitable fields in emerging locations beyond the grasp of OPEC—notably Azerbaijan, Angola, Trinidad, West Papua and in the Gulf of Mexico. In January, it sold its Forties field in the North Sea plus other ageing assets in the Gulf of Mexico for $1.3 billion. Now, with its stake in TNK, 30% of BP's reserves will be in Russia—positioning it well, in the long run, to pump oil into China.

Any oil firms tempted to follow BP's lead may not have much to choose from, however—even assuming

that Russia's political establishment is willing to allow more foreign ownership. Only one decent-sized Russian oil firm, Sibneft—TNK's nearest rival—seems open to selling a stake to a foreigner anytime soon. Yukos, which has become the biggest Russian oil producer, ahead of Lukoil, has talked in the past of selling a small stake. But thanks to high oil prices it now has spare cash and seems likelier to buy than be bought.

Beyond the oil industry, there are a few obvious targets for foreign multinationals, if they can summon up the courage. There are some big formerly state-owned car and telecoms firms, still struggling to modernise, plus breweries and food factories. There has long been talk that a foreign firm will buy into Norilsk Nickel, which extracts one-fifth of the world's nickel and platinum from northern Siberia.

Yet although some Russian firms now see proper management control and corporate governance as essential, they remain heavily concentrated in telecoms and the oil industry. Even if foreigners snap these up, many Russian firms will remain a mystery to potential buyers—at least until Russia has done more to reduce bureaucracy and simplify tax and business law. Here, progress, though genuine, is slow. In truth, it will only be clear that Russia has truly changed when you do not have to be BP to invest there.

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Hong Kong tycoons

Still prodigal

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The son of Asia's richest man is still struggling to prove himself

Reuters

Richard Li, praying for a deal?

IT CANNOT have been a proud moment for Li Ka-shing, Asia's most powerful business tycoon. The botched attempt by his youngest son, Richard Li—a noted *bon viveur*—to buy Cable & Wireless (C&W), an ailing British-based telecoms firm, has exposed Mr Li as a clumsy dealmaker and, worse, as a person whom no financier in Hong Kong wholly trusts to run a business. Like his father, the 36-year-old Mr Li is driven by the thrill of a deal. When his son was in his 20s, Mr Li senior gave him $125m to buy Star TV. Four years later, his faith was vindicated when Mr Li sold Star to Rupert Murdoch for a $700m profit.

Since then, though, Mr Li's own star has fallen. His firm, Pacific Century Cyber Works (PCCW), failed in its grandiose dream to bring the internet to China. Instead it saddled itself with $12 billion of debt when it bought Hong Kong Telecom (HKT), the colony's fixed-line operator, from C&W for $29 billion in 2000, in what was then the biggest Asian business deal outside Japan. PCCW's once soaring shares have been the dogs of the Hang Seng Index for three years in a row. The whizz-kid dealmaker has had to resort to mundane cost-cutting.

It seems that a combination of boredom and a desire to repair his reputation with both investors and his father tempted Mr Li to stalk C&W. As Simon Mellon, a telecoms analyst at HSBC, says, “For a man in his father's shadow, it was hard to have become Mr Cost-Cutting not Mr Growth. This was a ballsy flag telling daddy that he is someone to be listened to again.”

But Mr Li had neither luck nor competence on his side. Last December he wrote to C&W signalling interest, but with no firm offer price, just as C&W had found itself a shrewd new chairman, Richard Lapthorne. Mr Lapthorne rebuffed his vague, arrogant overture. Yet the idea may not have been so foolish. Mr Li had cooked up a way for an American private-equity firm, Texas Pacific Group, to take on C&W's lossmaking web-hosting business, leaving him the cash-generative fixed-line and mobile-telecoms operations. With C&W's share price down from £8 ($12) two years ago to only 66p, the target looked cheap. Rumour suggested that Mr Li would offer £1 a share.

Alas, neither his shareholders, nor his bondholders, nor the rating agencies, wanted Mr Li to do another deal. Although PCCW's net debt has been cut to $4.3 billion, it still exceeds the group's $3.5 billion market value. Investors would prefer Mr Li to keep on reducing debt and to concentrate on better operational management. On rumours of the deal, Moody's put PCCW on a downgrade review; and Steven Koh, head of Asian equities at Standard & Poor's, said that PCCW was “trying to bite off more than it can chew.” Nor did investors see synergies with C&W's fixed-line business, which is mainly in the Caribbean with only an operation in Macau of any relevance to China.

Mr Li's execution was also slipshod—assuring regulators in Hong Kong that he had made no bid, even as he leaked to the British press; and later admitting to Britain's Takeover Panel that he had indeed made a preliminary approach. That led Hong Kong's Stock Exchange to investigate whether PCCW had flouted disclosure rules and to suspend trading of its shares on February 10th—forcing PCCW to issue two statements that day apologising for the confusion and withdrawing any intention to bid.

Still, the sorry episode has at least raised Mr Li's profile. As one fund manager noted, “this puts him back on the world map, on the front of every newspaper.” Criticism of his behaviour is unlikely to dampen Mr

Li's renewed hunger for a deal. Although he denies talking to Japan Telecom, rumours swirl that he wants Energis, a British telecoms group. As HSBC's Mr Mellon puts it: “The playboy was wearing slippers. Now he's signalled he's back.”

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About sponsorship

Cable telephony

Crossed wires

Feb 13th 2003 | NEW YORK
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Cable telephony makes a comeback

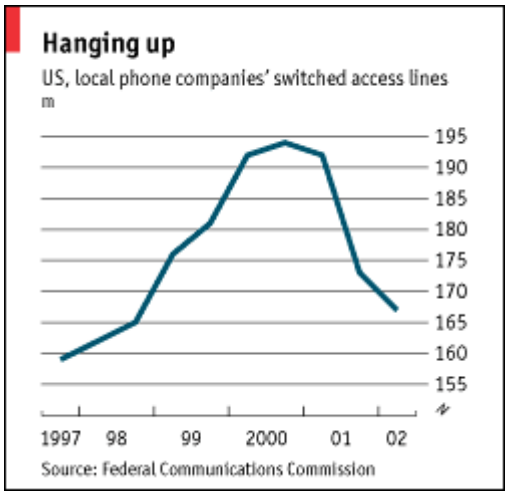
NO SOONER had news leaked that SBC, America's second-biggest phone company, was sniffing around DirecTV, a satellite-television service, than the howling began. Not long ago, Edward Whitacre, SBC's boss, would have won plaudits for his “vision”. This week, he faced ridicule, as investors heaped scorn on the idea of a merger with DirecTV's parent, Hughes. Yet Mr Whitacre has good reason to muscle his way into television. For TV, in the form of America's powerful cable companies, is about to take big steps into telephony.

Like many whizzy ideas touted in the late 1990s, cable telephony is now pooh-poohed as a failure. Despite heavy investment, America's cable firms boast just 2.6m phone lines—dwarfed by the 167m lines that local phone companies such as SBC control. What is more, the growth of cable phone lines has slowed, as the pushiest cable company, AT&T Broadband, struggles to merge with Comcast, a rival.

Yet two developments brighten the gloom. The first is upbeat news from Cox Communications, a cable firm that has gone into telephony. Cox entered the phone market in 1997. Its target is the 10m homes passed by its cables. So far, about 720,000 have bought, beating the firm's forecasts. The margins are excellent, says Cox. In its most mature markets, adoption rates top 30%, and keep rising fast. Cox markets bundles of television, telephone and high-speed internet services by throwing in extras such as free long-distance minutes and premium cable-TV channels. Customers get everything on one bill. Like all cable firms, Cox faces competition from satellite TV. But the bundles and billing boost customer loyalty.

The second bright spot is a maturing technology called “voice over IP” that delivers phone calls via the internet. Cox and AT&T Broadband's telephone networks operate the old-fashioned way, managing traffic using costly switched circuits. Early attempts at internet telephony suffered from poor quality. But in the past year start-ups such as Vonage and Net2Phone have introduced phone services over broadband connections whose quality matches a regular phone call.

The main selling-point is cost. Cox says it costs about $600 to add a customer to its phone network. Net2Phone says its technology costs a third of that, or less: all customers need is new software and a cheap box to convert the phone's analogue signal into digital. Besides a revenue-sharing pitch it is making to cable firms, Vonage is selling direct to retail customers. Prices must make the likes of SBC weep. Vonage offers unlimited local calls and 500 long-distance minutes for $25.99 a month. A similar plan from a traditional phone company could cost three times as much. Vonage expects to have 100,000 customers—up from 15,000 now—and to be profitable by the end of the year.



SBC and other local carriers are already losing lines to rivals (see chart). New cable-telephony services have the potential to increase the rate of loss from a barely manageable 5-6% of lines a year to 15% or more, says Ford Cavallari of Adventis, a consultancy. The right strategy, says Mr Cavallari, is for the phone companies to start distributing content, such as TV and music, and so increase customer loyalty much as Cox has. That means either buying into the TV business or upgrading copper lines to carry more entertainment traffic. This sounds horribly late 1990s to today's jaundiced investors. But the phone companies may find they have no choice.

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Telecoms regulation

When stars collide

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A feud at the FCC?

AS COLIN POWELL battles unruly allies in the war on terror, his son, Michael, faces a revolt of his own. On February 13th, the five commissioners of the Federal Communications Commission (FCC), America's telecoms regulator, were due to vote on a proposal to deregulate the local phone market. As the FCC's chairman, Mr Powell was counting on two fellow Republican commissioners to get his plan through. But at the last minute one Republican, Kevin Martin, cut a deal with the FCC's two Democrats to back a rival plan. Stung by this act of betrayal, Mr Powell has delayed the vote for a week.

The spat at the FCC has set tongues wagging. Messrs Powell and Martin are rising stars in the Republican Party. Mr Martin has his own direct connections to high office: his wife is a spokesperson for Dick Cheney, America's vice-president. Nor is this the first time that the two men have crossed swords. His voting record hints that Mr Martin may have gone out of his way to rankle his chairman, despite their seemingly broad agreement on regulatory policy. People both inside and outside the commission suspect a personal feud.

At issue is the 1996 telecoms act, which requires America's incumbent local carriers (“Baby Bells”) to lease their networks to rivals at discounted rates. Under the act, the FCC has to justify its decision for each bit of the network (switches, copper wires, and so on) that it forces the Baby Bells to rent out. Until now, the FCC has ruled that all bits must be available—which the courts have twice said is indefensible.

After a year studying the market, Mr Powell has decided that he cannot defend keeping the Baby Bells' switches on the list. Mr Martin has countered that, because regional markets differ, the 50 state commissions should decide which bits stay and which go. This sounds sensible in theory. In practice, argues Mr Powell, it would lead to confusion, delay and uncertainty, the last things that the telecoms industry needs. State commissions do not have the staff to do the work, which could take a year or more to complete. Meanwhile, investment would be put in limbo because nobody will know which way each state will jump. As elected officials, moreover, state commissioners tend to like low, government-mandated prices, and are likely to gut Mr Powell's attempts to deregulate. One yardstick: AT&T, which benefits most from subsidised rates, has become an enthusiastic advocate of states' rights recently.

Mr Powell has answered Mr Martin with a second proposal, which hands a bit more power to the states. In theory, Mr Martin could resist Mr Powell's entreaties and try to push his own plan through. But that would humiliate Mr Powell and embarrass the Republicans. More likely, party elders will spend the next few days knocking young heads together. If only dealing with the French were so easy.

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Pharmaceuticals

Pushing pills

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Marketing drugs to doctors is turning into a tricky business

Get article background

LEGALISED bribery is what some drug reps call their employers' marketing. Despite much publicised recent efforts by drug-industry groups to curb the most egregious ministrations to doctors by reps—curiously, more often than not pretty women—firms still spend billions trying to walk a fine line between product promotion and undue influence. Yet some of the oldest tricks in the marketing book do not seem to pay off as they used to—which is bad news indeed for the drug firms.

Selling prescription drugs is a curious business. Unlike other consumer-goods makers, which pitch their wares directly to the consumer, drug companies lavish most of their marketing money on doctors—medical middlemen—in an effort to persuade them to prescribe their products to consumers (ie, patients). Last year, drug firms spent nearly $9.4 billion on marketing to American doctors, according to Verispan, a market-research firm.

The traditional focus of drug marketing is the personal “detail”, in which a sales rep sits down with a doctor to discuss the merits of a drug and often hands over free samples. But these details are under growing scrutiny. Last week, police in Verona raided the offices of GlaxoSmithKline; now 40 staff and 30 doctors are under investigation for *comparaggio*—prescribing drugs in exchange for gifts, such as computers and lavish trips.

Many European countries besides Italy restrict the value of gifts that drug firms can bestow on physicians. As well as laws covering kickbacks and false claims, American regulators are working on further “voluntary guidance” for interactions between drug companies and doctors. PhRMA, the American industry's trade association, has introduced a new code of conduct for corporate largesse. Even the tradition of free samples can land firms in trouble: two years ago TAP Pharmaceuticals was fined $875m by the Department of Justice for dodgy marketing practices, including giving doctors thousands of dollars' worth of samples on the understanding that they would then bill the federal government. AstraZeneca's sales and marketing of one of its drugs, Zoladex, is being investigated by the Department of Justice.

Strictly speaking, it is “unethical” for reps to take doctors to baseball games or buy them gifts. But, as one former rep confesses, when a doctor said he would ask a rep for a Palm Pilot, “I offered to buy it, as I knew if I didn't a competitor would.” Her firm helped to “hide” the purchase. Drug firms have happily taken doctors to spas and golf courses for “consulting trips”.

Experience has taught drug firms that the more reps they deploy to push a product, the higher their sales, says David Blumberg, of Accenture. As a result, the number of drug reps in America alone has almost tripled since 1995, to some 90,000 last year, even though the number of doctors has barely budged (see chart).

There is a growing sense among industry executives that this “arms race” is running out of steam for some mass-marketed drugs, says Alasdair Mackintosh, of Cap Gemini Ernst & Young. Rising patient rosters mean that doctors, particularly in Europe, have less time to spend with sales reps. The average sales-rep call with a doctor now lasts less than five minutes. A fall in the number of new drugs launched, combined with a wave of industry mergers and co-promotional deals, means that more reps are flogging fewer drugs, often “me-too” products whose comparative merits

take some explaining. The upshot, according to a recent study by Datamonitor, a consultancy, is that for every dollar spent on marketing (not exclusively by reps), the industry's top 14 firms earned an average of only $17 in sales in 2001, down from $22 in 1998.

Drug firms are starting to use more sophisticated techniques than a short skirt and a smile to peddle their pills. In America, they send their sales reps into battle with sophisticated tools, such as Palm Pilots with fancy software, and rigorous training, to make their pitches. In America, detailed prescribing data can be bought from specialist research firms, which some drug firms are now beefing up with detailed information about why doctors prescribe as they do. For example, Eli Lilly uses the call-centres it runs for doctors who have questions about products to make a few inquiries of its own, and to build detailed profiles of doctors.

With face time ever harder to secure, several companies, such as iPhysicianNet, have sprung up to provide “E-detailing”, which uses computer-based video-conferencing to reach doctors at their convenience. In America, where direct-to-consumer advertising is allowed, television commercials enable drug firms to turn patients into salesmen too, demanding specific brands from their doctors.

Teaching, not bribery

Drug firms are having to work harder to build relationships with doctors, repositioning themselves as providers of medical education, without this coming across as a bribe. Firms are also focusing more on specialists who influence medical practice, using highly trained “medical science liaisons” to engage such doctors early in a drug's development so that they can spread the good word to their colleagues.

Given the growing complexity of the market, many firms have called in experts from industries such as consumer goods or financial services to create and maintain their brands. Novartis, a Swiss drugmaker, has hired marketing personnel from the likes of Procter & Gamble and Gillette to smarten up its direct-to-consumer advertising and brand creation. Thomas Ebeling, its head of drug operations, was once a marketing manager at Pepsi.

But techniques for selling soap do not necessarily work for pills. Nobody attacks IBM for its marketing budget; but drugmakers are lambasted by some campaigning groups for spending as much on sales as they do on R&D. Drug firms that try to extend their product's reach can land in trouble: a recent article in the *British Medical Journal* suggested that researchers associated with Pfizer were inventing a new disorder, female sexual dysfunction, not least to expand the market for anti-impotence medicines.

Few expect drug firms to spend less on marketing. But they could spend more wisely; and more exciting and innovative marketing could help to maintain brand loyalty long after generic competitors have entered the market. Although cutting salesforces makes sense for some drugs, few firms are willing to take the first step. As Jaideep Bajaj, at ZS Associates, a sales-research firm, notes, “These firms are caught in a classic prisoner's dilemma. Unilaterally, no one is willing to call off the arms race.” Non-proliferation may have to wait for a drastic reversal of company fortunes—or the strong arm of regulators.

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Face value

Preparing for war

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FT

How British Airways boss Rod Eddington plans to survive a war in Iraq

Get article background

IT HAS been a scary week for Rod Eddington. When the chief executive of British Airways woke up in his New York hotel on Tuesday morning, he switched on CNN and saw film of one of his planes landing at Heathrow. Good, he thought, they're running a piece on the airline's decent quarterly results, announced on Monday before he flew to a board meeting of News Corp, of which he is a director. “Then I saw the tanks.” He returned on Wednesday and saw at first hand the troops and police road-blocks put in place at dawn by the British government, worried that terrorists might try to shoot down an aircraft.

There is nothing like having armed police outside your offices to underscore what a scary time it is to be running an airline. The government had even contemplated closing Heathrow, which would have grounded the airline almost entirely. BA would have instantly found itself in the same dire predicament as the American carriers did after September 11th 2001. Mr Eddington seems relieved that the government took the view that shutting the airport would have handed a victory to al-Qaeda.

As it is, the prospect of war in Iraq and the continuing risk of terrorism threaten BA more than most airlines. Not only is London a prime terrorist target, but the outbreak of war would produce the sharpest fall in passengers on the long-haul routes, particularly across the Atlantic, on which BA makes almost all of its profits in normal times. When the Gulf war started 12 years ago, traffic plunged by 40% on transatlantic routes—although it rebounded fast when the war ended. However, since traffic plunged after September 11th, the recovery has been much weaker. This suggests the double hit of the terrorist attacks and a second Gulf war could be severe and prolonged.

Presenting the airline's better-than-expected third-quarter results on February 10th, Mr Eddington gave warning that there would be no growth in revenues in the year ahead. Despite swinging back to an operating profit of £53m ($84m), from a loss of £187m the same quarter of 2001, Mr Eddington says that the airline will make a small profit for the full year ending in March only if there is no war in Iraq before then. Analysts slashed their forecasts for next year. Chris Avery of J.P. Morgan, for instance, switched from predicting a pre-tax profit of £410m in 2003-04 to tipping profits of just £25m. Lord Marshall, Mr Eddington's non-executive chairman, rues the recent return of the airline to the FTSE 100, because it is bound to drop out again if there is a war, generating more bad publicity.

War in Iraq would hurt BA not just on transatlantic routes but also on long-haul to the Middle East, where the airline's flights are currently full, generating around 6% of total revenues. Flying across the Atlantic produces roughly one-third of BA's revenues and as much as 90% of its profits, with the rest coming from other long-haul routes, including the Middle East. But the airline loses some £300m a year in Europe, although Mr Eddington says he has made good progress in reducing that. He aims to break even in Europe by March 2004, though that goal would also fall foul of a war, assuming that travellers are scared off for a while.

Even with no shots fired in the Gulf, BA has had a taste of the impact to come. Premium traffic fell by 7.6% in January. Bookings for coming months are well down, as many travellers opt to delay ticket purchases until the last minute, or even to stay put rather than risk being anywhere near the war zone: last time round, three of BA's aircraft were stranded in Kuwait.

Mr Eddington says he cannot predict with any precision the effect on BA of a war that most people now see as a racing certainty. It will depend, he says, on what sort of war it is, and how long it lasts. If it is over soon after a short, sharp air campaign, that would let carriers such as BA off more lightly than if there were a protracted land war. His approach, he says, will be to monitor bookings and traffic closely, so as to cut flight frequencies and reduce capacity to match demand. When war broke out in 1991, BA quickly cut 4,600 jobs (without any forced redundancies) and stood down a further 2,000 staff on half-pay for a year.

The world's favourite cost-cutter

After September 11th, Mr Eddington cut 7,000 jobs immediately, slashed capacity by 10% and launched a review of the “future size and shape” of BA. The decisions that led to were unveiled a year ago. There would be 6,000 more job cuts. Unprofitable British and shorter-haul European routes went.

These cuts have trimmed £1 billion from BA's annual operating costs, bringing them down to £7.5 billion in the year to last December. The airline has postponed delivery of some Airbus planes it has on order, but capital spending was already battened down. In the two months after September 11th, BA was bleeding cash, according to Mr Eddington, at a rate of £2m a day. “But by February 2002, we had reduced it to zero bleed,” he says. Since then BA has been piling up cash for a rainy, or war-torn, day: it has £1.8 billion in the bank and credit facilities agreed for a further £400m which will buy it time—although it is still in net debt to the tune of £5.2 billion.

Compared with the big American carriers, the top seven of which (two are bust) lost $3.7 billion between them in the fourth quarter of 2002, or with KLM, which reported a loss of $63m in the same period, BA looks in relatively robust shape. Mr Eddington is already planning how to trim, when traffic falls during a war, without losing the ability to reap the opportunities a post-war rebound would bring. In peacetime, he has responded well to the potentially deadly threat posed by low-cost airlines—cutting costs and offering cheaper fares in slack periods over the internet, where 40% of all short-haul flights are booked, apparently without losing revenue. But BA may need all of his relentless focus on costs and innovative marketing to make it through the battle that lies ahead.

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China's economy

Is the wakening giant a monster?

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From The Economist print edition

EPA

Fear of China's growing industrial might is widespread. But not entirely rational

Get article background

IF THERE is a quintessentially Chinese industrial product, it is the bicycle. But the bicycle has also become a symbol of what the rest of the world fears most about China—that its phenomenally fast growth can be sustained only at the expense of other economies, both developed and developing. China's success at building bikes has undermined production of two-wheeled vehicles everywhere. The Chinese now manufacture 60% of the world's bicycles, and 86% of those sold in America.

All over the world the price of bikes is falling. In Ghana, for example, the cost of a low-end mountain bike has plunged from $67 to $25 in the past two years. The only country with a chance against China's infamously low wages, it is said, is India. Rival manufacturers in Latin America and Africa are struggling to survive.

After bicycles, what next? The pessimists fear that a string of other industries will follow. The labour-intensive textile and clothing sector is already in a panic. For years, rich countries have been distorting world trade in garments with a complicated system of import quotas. As a result, many people in poor countries—such as Indonesia, Mauritius, Mexico and Pakistan—nowadays depend on making as much as their textile quotas allow. Even rich-country firms—in the Carolinas, notably—have continued to do well behind their quota walls.

China is these workers' worst nightmare. It is already by far the biggest garment exporter in the world, with average wages in the industry of 40 cents an hour—less than a third of, say, Mexico's. Now that China belongs to the World Trade Organisation (WTO), moreover, it will benefit from an agreement by members to eliminate the quotas completely by 2005. As a result, according to estimates by the World Bank, China's share of world garment exports will increase from about 20% today to 50% by the end of this decade.

Shoes, semiconductors and televisions are expected to follow. China already makes over half of the world's shoes, and Malaysia frets over the exodus of electronics factories from Penang, an island once hyped as a potential Silicon Valley, to Guangdong and the Yangzi delta. Heinrich von Pierer, the boss of Siemens, a big German electronics and electrical conglomerate, has called the country “a global factory” for his company. Comparisons are made with Manchester during the Industrial Revolution. China, it is

said, is becoming the “workshop of the world”.

Andy Xie, an economist with Morgan Stanley in Hong Kong, reckons that by 2005 China's exports could have exceeded those of Japan. He also thinks that China has a lot to do with deflation in other countries, because it causes price wars and pushes down profit margins of companies elsewhere. China's industrialisation, he says, “devalues manufacturing assets outside China”.

Before getting too gloomy at the prospect of China snatching jobs and foreign investment from everybody else, however, consider one of the reasons for its success at exporting bicycles—the fact that the Chinese themselves are getting off their bikes and into cars. According to Walter Hook, director of the Institute for Transportation and Development Policy in New York, 33% of all trips in Guangzhou, a rich southern city, were by bicycle in 1995; today, fewer than 20% are. Bicycle makers such as Shanghai Phoenix, one of China's biggest, have lost half their domestic market in recent years. They have no choice but to export.

On the other hand, sales of cars in China have started to take off. Last year they exceeded 1m for the first time, and they are expected to rise by another 20% this year. And who is making these cars? None other than the likes of Volkswagen and General Motors. China is now VW's biggest market outside Germany, and Ford expects China to become bigger for it than both Germany and Japan within five years. Even when they are assembled locally, many of these cars' components are imported.

China (including Hong Kong) already imports more from the rest of Asia than does Japan

China (including Hong Kong) already imports more from the rest of Asia than does Japan, and shopkeepers in Sydney and Singapore are beside themselves whenever buses of Chinese tourists pull up outside their stores. As China grows, it becomes a bigger market for other people's goods, as well as a bigger exporter of its own. If there is nothing to distort this process, everybody benefits.

Figuring it out

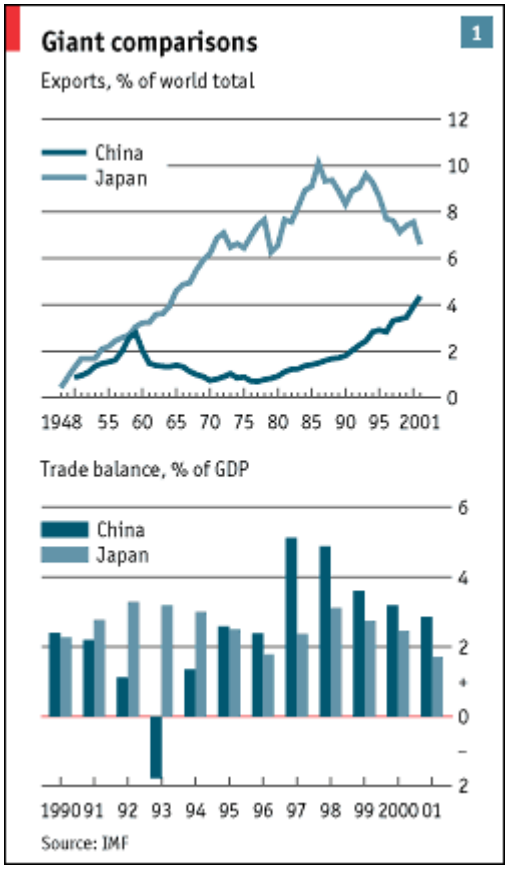
China's economy is already enormous. In dollar terms, its GDP is the sixth largest in the world, just smaller than France's. In terms of purchasing-power parity (after adjusting for price differences between economies) it is second only to the United States with an 11.8% share of world GDP. Its growth rate too is extraordinary. Last year's official figure of 8% made it the most dynamic large economy in the world—by far. Many independent economists believe that this is exaggerated by several percentage points. Nevertheless, few doubt that the Chinese economy is booming.

It is China's strength as a trading nation, however, that most worries others—in particular, the more sluggish economies in the region. Japan's minister of finance and other government officials habitually accuse China of mercantilism, and of unfairly maintaining an undervalued currency in order to make its exports more competitive. In 2001, China's exports rose by 23% to $266 billion and accounted for 4.4% of all world exports. That is the highest level they have ever reached, but it is still a long way off Japan's record (of 10.1% of world exports) in 1986. It is even below Japan's figure for 2001 of 6.6%.

China's trade surplus in 2001 increased to over $30 billion. At 2.9% of GDP, it was relatively larger than Japan's (1.7%) but smaller than South Korea's (3.2%). Moreover, China's trade surplus as a percentage of GDP has declined every year since 1997 (see chart). The country has a substantial trade deficit with Malaysia, South Korea and Thailand, and since it joined the WTO, China's imports from Japan have been increasing at an annual rate of 40-50%.

The bottom line? China's trade is nowhere near historically unprecedented levels. Since its economic opening in 1978, the country's share of world trade has more or less quadrupled. But so did Japan's between 1955 and 1985, and the Asian tigers' between 1965 and 1995. Since China joined the WTO in December 2001, becoming subject to its rules on free and fair trade, accusations of mercantilist behaviour have sounded even more hollow than they did before.

Inevitably, as China grows, some countries will find their competitive position altered and the adjustment painful. They might even be tempted to retaliate. European bicycle producers, for example, have persuaded the EU to impose tariffs on Chinese imports, accusing the Chinese of dumping. There will, on the other hand, be some, such as the Philippines (see article), which will find their economies rising on the surging Chinese tide.



Another current concern about China is that it is hoovering up foreign direct investment (FDI) that, were it playing fair, would be destined elsewhere. Much of South-East Asia is paranoid about being sidelined by China in the competition for investment from rich countries. True, last year China surpassed America as the world's largest recipient of FDI, with $53 billion-worth. But that had more to do with the collapse of investment in America than with the rise in China. Inflows into America in 1999 and 2000 were $283 billion and $301 billion respectively. The figures for China in the same years were $40 billion and $41 billion, respectively.

Yasheng Huang, an associate professor at the Harvard Business School, argues that China's high level of FDI is a sign of weaknesses in China's own financial system and of an inability to make good use of its high level of domestic savings. Mr Huang points out that since the financial reforms of 1997, FDI has played a relatively diminishing role in China's economy.

Moreover, the raw numbers exaggerate the picture. A large amount of China's FDI is money that has been earned in mainland China but then booked to accounts in Hong Kong for tax reasons. It subsequently comes back to the mainland as FDI, in a process of “round-tripping”.

Labour pains

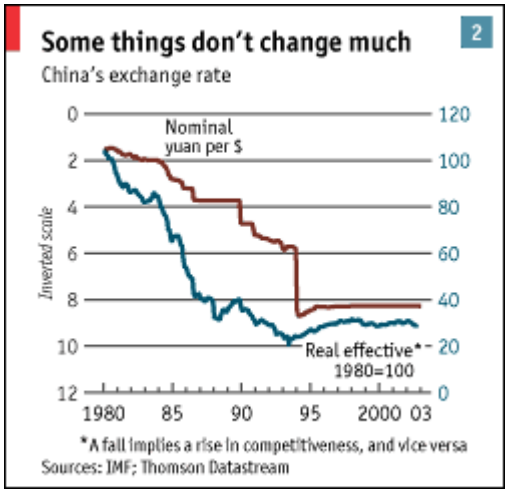
Much of the fear of China's economic miracle is exaggerated. There are some respects, however, in which it is not entirely unfounded. The first has to do with the cost of labour. With manufacturing wages in China averaging about 60 cents an hour—5% of the American average, and 10% of that in some neighbouring Asian economies—and a seemingly infinite supply of workers, China does look as though it could out-compete other economies in the manufacturing of almost anything labour-intensive. And this is exactly what is happening: 70% of China's exports today are of garments, toys, shoes, furniture, and such like.

By contrast, when it comes to computers, cars or semiconductors—capital-intensive goods, in other words—China may increasingly be producing, but it is not exporting. And it is certainly not attacking foreign competitors in their home markets. Legend Group, for instance, is China's biggest computer brand by far and a stunning success in its domestic market. But Yang Yuanqing, its boss, concedes that it will be years before he would even think about going head-to-head with, say, IBM in America. In cars, all of the many announced joint-ventures between foreign multinationals and Chinese companies except one (Honda's, in Guangzhou) will sell only to the domestic market. Shanghai's semiconductor plants, too, are aiming at the booming demand for simple commodity chips inside China itself.

Economic theory says that differences in countries' wage rates should be reflected in differences in their productivity levels, and that any misalignment will be smoothed out over time. The fear is that, in China, that time could be painfully long. Millions of people are moving from the countryside to the cities. At the same time, state enterprises are shedding huge numbers of workers—just one of the four big state-owned banks has laid off 110,000 employees in the past few years. This huge pool of surplus labour helps explain why Chinese wages have been rising less quickly than productivity since 1996.

Another way to offset a country's rapidly rising productivity would be through currency appreciation. But China has a fixed exchange rate (of 8.3 yuan to the dollar—see chart) at a time when the dollar itself is depreciating against other major world currencies—in particular, against the yen and the euro. The black-market

exchange rate in China suggests that the currency is only slightly undervalued. But a massive rise in China's reserves in recent years is evidence that the country has been holding its currency down artificially. Politicians in America and elsewhere are calling for the yuan to be revalued.



The Communist Party is, in fact, considering the idea of floating the currency, but it worries that full convertibility could expose China to the sort of currency crisis that hit South-East Asia in 1997. That affected first and foremost the countries' banking systems, and China's banks are in no fit state for a shock. Nicholas Lardy of the Brookings Institution reckons that there are about $500 billion-worth of bad debts in the system, or more than 50% of all loans.

A switch to a floating exchange rate, therefore, cannot happen without drastic reform of the banking system, and that looks to be several years away. Paul Volcker, a former chairman of America's Federal Reserve Board, has argued that China should maintain its dollar peg for the time being.

The enduring competitive advantage from its surplus labour explains why so many emerging economies that rely on labour-intensive industries are worried about China's new-found economic muscle. For rich economies with capital-intensive industries, by contrast, China offers enormous opportunities.

Even inside the country, economists sometimes refer to China as a “bicycle economy”. But by this they do not mean cheap mountain bikes in Ghana. Instead, they are talking about China's need to keep moving forward just to avoid falling down. As the country becomes more market-oriented, its state-owned enterprises must lay off millions of workers. Only booming businesses can absorb this labour. So a strong Chinese economy should not be a problem. Imagine, instead, what might happen were China, a military giant with international grievances, to stagnate economically. That would be enough to strike fear into everyone.

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China and the Philippines

When you can't transplant plant

Feb 13th 2003 | TAGUIG CITY
From The Economist print edition

Relocating factories to China is not always a good idea

CONVENTIONAL wisdom says that the white-suited workers hunched over microscopes at PSi Technologies, checking the company's semiconductors for flaws, will soon be out of a job. In suburban Manila, as in the rest of South-East Asia, businessmen seem amazed that the region has any factories left at all. Almost anything can be made cheaper and better in China, they say, especially computer chips, which are practically a commodity.

Yet PSi has not just one, but two plants in the Philippines, and plans to expand further. The boom in China, far from destroying the local electronics industry through cheap competition, is helping to keep it afloat amid a global downturn. In 2002, even as the Philippines' electronics exports to America fell, exports to China grew, by about 120%. That far outstrips the growth of imports from China. Strong demand for its electronics products helped push up Philippine exports last year by 9%.

The much-feared hoovering, it turns out, is Chinese industry sucking in the imports it needs to grow at breakneck speed. Arthur Young, chief executive of PSi, reckons that 85% of his output ends up in China at some stage—mainly for assembly into mobile phones, computers and other appliances. That might seem like an argument for relocating to China, to be close to his customers.

And indeed PSi is looking into setting up a factory in China, at a customer's behest. But the decision is not as simple as it sounds. The cost of doing business in the electronics belt around Shanghai, Mr Young says, is already comparable to the Philippines, and rising. He might yet build a factory in a cheaper area, away from the coast. But shipping chips across China is not so different from shipping them across the South China Sea.

According to Ernesto Santiago, the head of SEIPI, the Philippines' electronics-industry association, the country retains a critical mass in the chip-making business. Multinational firms like Intel, Texas Instruments and Philips all have factories in the Philippines. They could, of course, move to China, as NEC, a big Japanese manufacturer, did recently. But most companies do not want to put all their eggs in one basket.

Anyway, Mr Santiago argues, the cost of relocation is greater than the benefits to be gained. Wages are higher in the Philippines than in some parts of China. But labour accounts for only about 10% of costs for most firms. China may have legions of engineers, but the Philippines also turns out 100,000 of them a year, more than the industry can currently absorb. What's more, many Filipino workers speak passable English, a boon when it comes to training.

To be sure, the Philippines' electronics industry faces plenty of challenges. Electricity is expensive; roads are ropy; and educational standards are falling. Foreign investors are wary of putting money into a country fraught with violent crime and plagued by both separatist and communist insurgencies. But these are problems that the government can address—unlike blind fear of competition from a wakening giant.

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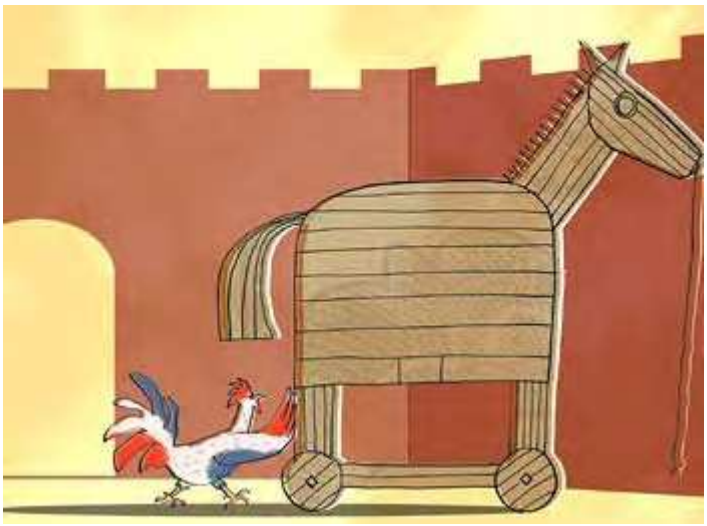
European securities regulation

Trojan horses

Feb 13th 2003
From The Economist print edition



Europeans cannot agree on the future of cross-border financial supervision

IT LOOKS like just another spat between Little Englanders and the devious French. In fact, it is more complicated than that. At issue is how to oversee the fast-growing pan-European securities markets. Should supervisors continue to rely on co-operation and mutual recognition among the European Union's 15 national securities regulators (soon to become 25)? Or should there be a single central supervisor of trading in European securities, and perhaps of banking and insurance as well?

Current practice points to the first answer. Two years ago a group of “wise men” under Alexandre Lamfalussy, a Belgian ex-central banker, mapped out the future of European securities markets. It proposed a system of committees and consultation to speed up the development and enforcement of securities legislation; but it stopped short of recommending a single pan-European regulator. Yet logic favours that choice—or so argue French logicians.

Even the severest critics of a single supervisor admit that it may come one day. For now, though, national regulation has staunch defenders, the loudest of them being in the City of London. Competition between regulators is a good thing, they say. Investors must in any case be protected by national laws. A single securities supervisor would need cross-border enforcement powers; yet this is hard without harmonised civil and criminal law, as American experience shows. Thus it would be premature even to think about a European equivalent of America's Securities and Exchange Commission (SEC).

The first law using the speeded-up Lamfalussy procedures, on market abuse, should come into force throughout the European Union in September. Others, on prospectuses and investment services, are in the pipeline. But it will be five years, say the Lamfalussy system's defenders, before it can be judged to have succeeded or failed. And only if it fails should more centralised oversight be considered.

Federal creep

Some retort that the Lamfalussy system is already showing signs of weakness. Norbert Walter, chief economist of Deutsche Bank, argues that the experience of one Lamfalussy body, the Committee of European Securities Regulators, shows that members need to rotate jobs to understand each other's markets properly. It would make far more sense, he says, to have a single command structure.

Indeed, there are already movements towards one. Last November the Economic and Monetary Affairs Committee (EMAC) of the European Parliament adopted a resolution for a treaty amendment that could, in future, give the European Central Bank (ECB) powers of financial supervision, or create a single super-regulator—along the lines of Britain's Financial Services Authority (FSA). To be sure, it is a long way from a parliamentary resolution to a treaty change. Still, Theresa Villiers, a British committee member who defiantly led her conservative group against the resolution, detects “creeping federalism”. Such ideas tend to be slipped in surreptitiously and then enacted in an “incremental, gradualist way”, she says.

Also creeping federally is Eurofi 2000, a mainly French group of financial-industry heavyweights. In November it published a survey claiming wide support for a more centralised system of financial supervision in Europe. Its blueprint favours three separate supervisory pillars for securities, insurance and banking, rather than one super-regulator; bank supervision would go to the ECB.

The EMAC resolution and the Eurofi report together were enough to spark paranoia across the Channel. The Corporation of London, the City's local authority, rallied support from banks and their trade associations to draft a response in support of the Lamfalussy process. It called for more enlightened rulemaking and better enforcement. Unobjectionable?

Creating a European super-regulator might be so difficult that it could be self-defeating

Up to a point. It began with the words: “Markets are created and developed by market participants, not by rules and regulations.” That drew a fiery response from Christa Randzio-Plath, the German MEP who chairs EMAC. “Markets *do* need regulation,” she said. It was odd, she added, that after all the recent scandals in America the City wanted to head “in the opposite direction”.

Meanwhile, City notables have been discussing their own ideas for centralised supervision, as an alternative to Eurofi's Trojan horse. They know the debate on Europe-wide supervision will not go away. If the Lamfalussy system fails, they will need their own blueprint—preferably modelled on the FSA.

Creating a European super-regulator might be so difficult that it could be self-defeating. Europe-wide banking supervision would seem to require a Europe-wide lender of last resort, which the ECB is not. Changing the ECB's status to match would have wide constitutional and fiscal implications. And centrally administered investor protection is unlikely to serve the investor as well as national regulation.

Ruben Lee of Oxford Finance Group, a consultancy, argues for a softer approach to creating a single securities supervisor. There should be no European SEC with powers to impose sanctions and fines; any such body should focus instead on corporate disclosure and enforcement by suasion, not prosecution. But Mr Lee predicts that the Lamfalussy system will fail because of national protectionism.

Such pessimism enrages those on the Lamfalussy committees and in the European Commission. It is too early to condemn a process that has hardly begun, they say. But Mr Lamfalussy and his wise men themselves foresaw a transition to a single supervisory structure. And prophecies of the system's failure may become self-fulfilling. If a handful of national interest groups want failure, they can be obstructive enough to make it happen.

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Japanese banks

The great capital scramble

Feb 13th 2003 | TOKYO
From The Economist print edition

Japanese banks' dash for capital brings a ray of hope—and the same old fears

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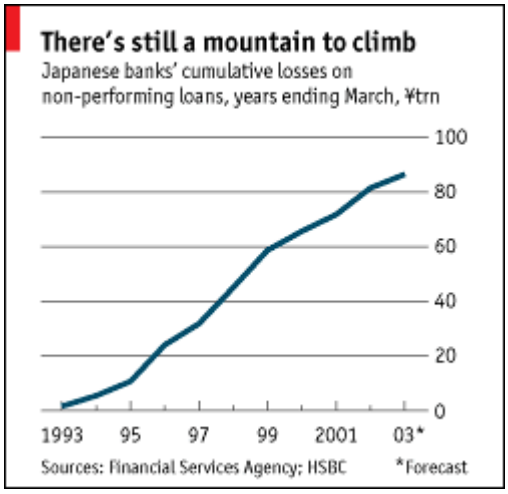

OFFICIALS at Japan's Financial Services Agency (FSA), regulator of the country's financial institutions, rarely have much to smile about. The wretched state of Japanese banks shows few signs of improvement. The banks have disposed of more than ¥80 trillion ($660 billion) of bad loans in the past decade (see chart), only to see fresh ones sprout. Last September, banks still had ¥40 trillion of duff loans on their books, according to figures released by the FSA on February 7th. Private observers think the true figure may be four times as high, or even more.

Still, an announcement the same day by Mitsubishi Tokyo Financial Group (MTFG), Japan's third-biggest bank by assets, that it plans to raise ¥360 billion in a public share offering raised some cheer. That a Japanese bank felt strong enough to choose this way of shoring up its capital base was "the best piece of news I've heard since the agency was created in 1998," says Hirofumi Gomi, head of the agency's supervisory division. MTFG, the only big bank not to receive a transfusion of public money in 1999, will be the first Japanese bank to issue ordinary shares in 13 years, and the first ever to offer them abroad.

Other big banks' efforts to build up capital only show their weaknesses. Among other things, they are issuing costlier preferred shares to foreign institutions. Sumitomo Mitsui Financial Group (SMFG), the country's second-biggest bank, will sell ¥150 billion of preferred shares to Goldman Sachs, which will receive an annual pre-tax dividend of 7%. The number-four bank, UFJ, will issue ¥100 billion of preferred shares to Merrill Lynch. Merrill is also said to be in talks with Mizuho, Japan's (and the world's) biggest bank by assets, about buying ¥150 billion of preferred shares.

Mizuho hopes to raise ¥1 trillion by the end of March. Mr Gomi describes its attempt, and those of other banks, to raise capital by turning to its own, equally weak borrowers, as "not the best method". He and his boss, Heizo Takenaka, the financial-affairs minister, have warned banks that the FSA is watching them closely to ensure that they do not, for example, hint that lending will be cut if borrowers do not buy shares, or lend new money to be used for share purchases. Some banks are also asking savers to swap deposits for equity.

Analysts believe that stricter regulation could finish off dozens of weak regional banks, whose bad loans outstrip their capital. But Mr Gomi believes few banks will go under, even though many could face penalties for allowing capital-adequacy ratios to fall below regulatory limits.

Rarely has the FSA had so much power to determine how frankly banks report on the state of their loan books. One reason the big banks are scrambling to boost their capital is that they are not sure how bad those books are—or rather, how bad they will be. For this will depend on the results of "special inspections", now being conducted by the FSA, which are due to be completed by March 31st, the end of the banks' financial year.

Only in April will the banks be told the outcome of the inspections. They will then have until the end of May to reopen their books and adjust their bad-loan reserves to reflect the FSA's classification of non-performing loans. They will not be able to use capital raised after March 31st to cushion fresh losses.

Moreover, if borrowers default during this period, their loans will also be downgraded. On the other hand, if borrowers now in difficulty manage to draw up restructuring plans involving large debt waivers from banks, their loans could be upgraded and the banks' bad-loan provisions reduced.

So if the FSA is strict on the classification of loans, the banks could look even sicker in a few months' time than they already do—unless they raise more capital now. If the agency is lenient, they could conceivably look healthier. The banks' recent capital-seeking flurry suggests that they are preparing for the worst.

Mr Gomi says the banks are worried that Mr Takenaka, who was appointed last September, will be stricter than his predecessors. The FSA is trying to reduce the mis-classification of non-performing loans by creating a database with information on 150-odd big, dud borrowers. It will also prevent banks from upgrading loans by approving debt waivers and flimsy restructuring plans: a new, 19-strong team, including turnaround specialists from the private sector, has been set up to check these plans.

All of this suggests a harder line, and further pressure on the banks. Mr Gomi wants to go further. He would like more foreign banks to buy their way into Japan and “give local banks a severe beating.” So what should be done with Aozora, a bank that was recapitalised with public money and is now the subject of a bidding battle between SMFG and a foreign suitor? Well, he admits, it would be easier for the FSA to explain itself to taxpayers and politicians if it approved a sale to a Japanese bank. (The agency may intervene when a stake of more than 20% changes hands.) Nonetheless, he stresses, the FSA will not make a decision based on convenience.

Despite his seniority, Mr Gomi is considered a maverick at the agency. “I'm not part of the mainstream within the FSA,” he says. “Still, Mr Takenaka thinks along the same lines as I do.”

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Philippine banks

False economy

Feb 13th 2003 | MANILA
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A cut-price attempt to clean up Philippine banks' balance sheets

LAST year, after half a decade in the doldrums, the economy of the Philippines perked up, growing by 4.6%. The balance sheets of the country's banks, however, are still in poor shape. Since the East Asian crisis of 1997, bad debts have piled up. They amount to 16% of all loans, on official figures; in reality they are probably higher. Having fuelled economic growth with a budget deficit that topped 5% of GDP last year, the government has no money left to spend on the sort of bad-debt buy-out under way in similarly afflicted countries elsewhere in the region, such as Malaysia and Thailand. Instead, it has opted for a clean-up on the cheap.

In January Congress passed a law to encourage the setting-up of private asset-management companies to dispose of bad debts. These special-purpose asset vehicles, or SPAVs, as Filipinos call them, will pay stamp tax neither on purchases of debts from banks nor on onward sales. Resale of debt and collateral will be free of capital-gains tax. Banks will be able to write off their losses on debts sold to SPAVs against tax. To stop banks abusing these tax breaks, they are prohibited from owning SPAVs.

The perks seem to be working. Cerberus Capital Management, an American private-equity firm, says it plans to invest $1 billion in Philippine debts. That alone would account for roughly one-seventh of the country's non-performing loans. Rafael Buenaventura, governor of the central bank, hopes that the new law will help to halve the bad-debt tally within a year.

The law smacks a little of corporate welfare. More efficient institutions, such as Metrobank, the Philippines' largest bank, have already sold their bad debts and written off the associated losses. The government may not be spending anything to help the banks, but it is forgoing lots of revenue, and the foot-draggers stand to profit most.

The new law is also unlikely, as Mr Buenaventura concedes, to be enough to restore the banks to health. At the moment, they have plenty of money, but nobody to lend it to (except the prodigal government). The sprightly economy ought to boost demand for credit. But much of the growth is coming from consumer spending, and Philippine banks have traditionally been weaker in retail finance than in industrial lending. They are not going to fling themselves into credit cards or mortgages until a few more laws are passed to pave the way for securitisation and secondary trading of consumer debt.

Nor, argues Felixberto Bustos, a professor at the Asian Institute of Management, will the SPAV law do anything to change the poor lending procedures that got the banks into trouble in the first place. Mergers, he says, would help to spread the best practice. But the new act might delay such consolidation, by helping the shakiest banks to recover their balance. Mr Bustos thinks that the central bank should tighten bad-debt definitions and capital-adequacy ratios, and that the government should pursue every penny of tax. Such stringency would force banks with the biggest amounts of bad loans to merge. And it would save the government money.

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Taxing stock options

Another nail in the coffin

Feb 13th 2003
From The Economist print edition

Options can damage your wealth

THE taxation of share options is proving just as contentious as accounting for them. Ronald LeMay and William Esrey, respectively president and chief executive of Sprint, an American long-distance telecoms company, have had to resign because a potential multi-million-dollar tax liability on their gains from exercising stock options in the company threatens to bankrupt them. They are not the first to find that the value of shares obtained by exercising options is less than the tax liability on them.

Sprint's share price has fallen from a high of $75.50 in November 1999 to around $12.40 today. But the gain from an option is taxable as soon as the shares are acquired. In theory, an option to buy 1,000 Sprint shares in 1999 at $20 a share could have given rise to a profit of $55,500. The tax on that for somebody on a 40% rate would be $22,200. But the shares themselves are now worth only $12,400. Stock options, unlike stocks, can thus be worth less than nothing. Tough?

Cautious folk sell enough shares at the time they exercise their options to cover their future tax bill. But restrictive clauses sometimes prevent investors from selling immediately. Mr Esrey and Mr LeMay thought they could avoid tax on their gains (of over $130m apiece in 1999 and 2000) by using a tax shelter recommended by Ernst & Young, Sprint's auditor. But Mr Esrey says that the Internal Revenue Service (IRS), America's taxman, is now “auditing the transactions”. Tax authorities are increasingly able to declare null and void any transaction whose sole purpose is the avoidance of tax. If the IRS does this in the case of Mr Esrey, who says he has never sold any of his Sprint shares, the tax bill “could take up most, if not all, of my assets.” Mr Esrey, jobless and recovering from cancer, is awaiting their verdict.

This can be a problem for thin cats as well as fat ones. In Ireland, a new finance bill published last week recognises that it has affected many ordinary employees in Ireland's once-buoyant high-tech businesses, some of them subsidiaries of American multinationals. The bill proposes allowing those who have exercised options at a price above the current market price of the shares to defer any tax liability arising from the transaction.

Gearoid Deegan, a tax partner in PricewaterhouseCoopers' Dublin office and chairman of the Irish ProShare Association, which lobbies for employee share ownership, has welcomed the proposal. It is not, however, as generous as it at first seems. Should the share price rise above the exercise price, the liability kicks in again. And should the taxpayer make any gain on any shares at all, the authorities can demand the tax that was deferred on exercising the options.

In Britain, broad-based employee share-option schemes are treated more generously than those granted to only a few top individuals. Nevertheless, the taxation of stock-option gains in Britain has been thrown into confusion by a case brought before the Court of Appeal in December. *Mansworth v Jelley* involved a former employee of J.P. Morgan and options that he exercised about 12 years ago—some indication of how long it can take to settle these matters. The Inland Revenue lost its claim that the cost of acquisition for the purposes of capital-gains tax (which arises on the gain between the exercise of an option and the subsequent sale of the shares) was the price paid to exercise the option. The three judges decreed that it should be the market value of the shares at the time the option was exercised. This has the effect of sharply reducing the capital-gains tax arising from share options, at least until (as many expect) the relevant legislation is changed.

The rules for taxing gains on stock options are unclear everywhere. This uncertainty, added to the long-drawn-out fall in equity markets, has sharply reduced the appeal of a perk that helped to put much of the puff into the stockmarket bubble. Yet, however undesirable they may be, stock options deserve juster and clearer treatment from the taxman.

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Accountancy

Auditing the auditors

Feb 13th 2003
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An ex-PricewaterhouseCoopers man tilts at the Big Four

NO MATTER what the Big Four accounting firms do to mend their ways after Enron and the collapse of Arthur Andersen, their audits will still be unreliable. So declares not an accountant-bashing shareholder activist, but Jonathan Hayward, a former partner of PricewaterhouseCoopers, who for years led the firm's efforts to improve its auditing methods.

Even if accounting firms are banned from carrying out other services for audit clients, says Mr Hayward, they will still be beholden to the executives who hire and fire them. Just as important, the bond created by working closely together under pressure means that auditors too rarely challenge management.

Big audit firms, says Mr Hayward, compete not on the quality of their audits but on the services they can offer their clients. Trainee accountants fresh from university do the vast majority of audit work, counting things and ticking boxes without having to think much. Such inexperienced audit teams are unlikely to spot trouble.

Admittedly, Mr Hayward has his own motive for dissing the Big Four. He has just set up a new company, Independent Audit, which will sell second opinions on financial statements to big British companies. Independent Audit will be staffed by experienced people and hired only by audit committees and non-executive directors: hence its claim to be more independent than the Big Four. It will, for instance, look into whether a company's accounting policies are sailing close to the wind and whether the primary auditor's independence has been compromised.

Audit committees and non-executive directors are under great pressure to stamp out accounting tricks and enforce good corporate governance. They are crying out for help over how to do it, reckons Mr Hayward. If it takes off, his company could, in effect, show that the market can provide an answer to problems of overseeing auditors that have been partly created by the Big Four's dominance. He denies that Independent Audit is a direct threat to their audit business—although, given time, it may evolve into just that.

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Rothschild

Evelyn's dauphin

Feb 13th 2003
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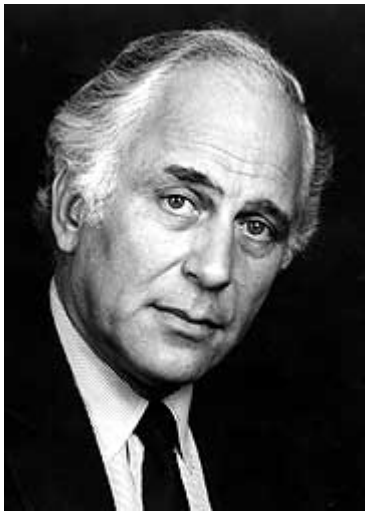
As Lazard prepares for a sale, can Rothschild remain independent?



Sir Evelyn's old-fashioned image

BEFORE he joined Lazard, Bruce Wasserstein talked to Rothschild, another family-owned bank, about buying a stake and running its investment-banking business. But the family did not warm to the forceful American. Lazard's gain and Rothschild's loss? Perhaps.

Sir Evelyn de Rothschild, chairman of N.M. Rothschild & Sons, the London end of the family firm, and a former chairman of *The Economist*, did not want to let an American merger specialist run, and possibly sell, his bank. Although it is reported that he will soon name his cousin David de Rothschild, chairman of Rothschild & Cie Banque, the family's French bank, as his successor, Sir Evelyn says only that “we are having a rearrangement” and that David will take on a bigger role. When David spends more time in London, Edouard de Rothschild, his younger half-brother, will take over more of the business in Paris. Sir Evelyn insists that he is not retiring.

Sir Evelyn has fought for decades to keep his bank independent. In 1980 he even fell out (for a time) with his cousin Jacob, now Lord Rothschild, who favoured a merger with S.G. Warburg, another British merchant bank. So he is unlikely to regret turning Mr Wasserstein down. Since becoming Lazard's chief executive in November 2001, Mr Wasserstein has been dressing up the bank for an expected sale to a bigger house: he has been quelling infighting, stopping defections (and sometimes failing), poaching talent and building up Lazard's capital-markets business.

Rothschild should avoid a similar upheaval. Sir Evelyn sees no imminent change in the ownership of the family's assets (which include a stake in *The Economist*). At the centre is Rothschilds Continuation Holdings (RCH), registered in Switzerland, which controls N.M. Rothschild. RCH is controlled in turn by Rothschild Concordia, another Swiss company, of which the British branch of the family, headed by Sir Evelyn, owns three-quarters and their French cousins the rest. David de Rothschild will probably follow Sir Evelyn as chairman of RCH. He, Edouard and Eric—another cousin, who runs Château Lafite, the family wine business—could try to buy most of Sir Evelyn's stake in Rothschild Concordia. Sir Evelyn says he does not intend to sell any shares. Yet control of N.M. Rothschild would make it easier for David eventually to assert authority.

David de Rothschild's priority will be to build better links between the banks in London, Paris and New York. That is something he had already begun as global head of the merger-advisory business in 1998, when he set up an investment-banking committee consisting of himself, Edouard and leading Rothschild bankers in London. Ultimately he might merge the French and British banks.

The bank is doing well. According to Dealogic, a capital-markets information firm, Rothschild ranked tenth in the global merger-advisory league last year; helped by a joint venture in equity capital markets with ABN Amro, a Dutch bank, it moved from seventh to sixth in Europe and even came first in Britain. In America a newish business, repairing the finances of bankrupt companies, is booming, in competition with such bankruptcy veterans as Lazard and the Blackstone group.

Rothschild has benefited from worries about conflicts of interest in the big investment banks, which have brought independent merger advice into vogue. But will it be able to survive? Banking boutiques are not sustainable in the medium term, says Davide Taliente of Oliver, Wyman & Co, a consultancy. Their balance sheets are too weak. They cannot compete with the intellectual capital, infrastructure and

advertising clout of their bigger rivals. Even so, John Tattersall of PricewaterhouseCoopers sees a future for Rothschild as an independent adviser on mergers and bankruptcies.

In a fast-changing financial industry, Sir Evelyn has preserved the family bank's old-world culture and somehow still attracted talented bankers, even though he paid about a third less than most competitors. Not that he is ungenerous. At Christmas, every Rothschild employee is given a frozen turkey: lorry-loads of kosher and non-kosher birds are delivered to headquarters, in St Swithin's Lane in London. This year, not many investment bankers will have a bonus as valuable.

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American pensions

Discount them at your peril

Feb 13th 2003 | NEW YORK
From The Economist print edition

A dispute over details worth billions to companies' pension funding

FOR a measure of corporate America's pension-fund problems, look no further than the Pension Benefit Guaranty Corporation (PBGC). This quasi-governmental agency, which insures companies' defined-benefit pension plans, swung from a $7.7 billion surplus in 2001 to a record $3.6 billion deficit last year as it took over one stricken scheme after another. “It is a wake-up call,” says Peter Fisher, undersecretary of the Treasury and the Treasury's representative to the PBGC.

Plugged
Selected PBGC pension-scheme bail-outs, 2002

Date	Company	Amount under-funded, $bn	Number in plan
Feb	Reliance Insurance	0.1	8,700
Mar	LTV Steel	2.2*	82,000
Jun	RTI	0.3	6,200
Aug	Anchor Glass	0.2	14,000
Aug	Harvard Industries	0.1	9,100
Sep	Acme Metals	0.2	3,800
Sep	Polaroid	0.3	11,000
Dec	Bethlehem Steel	4.3*	95,000
Dec	National Steel	1.5*	35,000

Source: PBGC *PBGC not liable for full amount

Many experts think that the agency's burden has grown largely because companies lack incentives to fund their pension schemes adequately. How much they should put aside depends in part on the interest rate companies use to calculate the present value of their future pension obligations. One PBGC insider guesses that an increase of one percentage point in the discount rate at the end of 2001 would have cut pension-fund deficits by 40%.

The rate is now in dispute. When a temporary increase in the rate expires in December, it is due to fall by roughly a percentage point, to near the yield on 30-year Treasury bonds, now about 4.9%. Pension liabilities will balloon. For companies, this is frightening. By law, firms with large deficits—in essence, those with pension-fund assets consistently less than 90% of liabilities—must make up shortfalls. Falling stockmarkets have done plenty of damage on the asset side; a lower discount rate will push up liabilities and force more ailing companies to make pension provisions, or even to hand their funds over to the PBGC.

The ERISA Industry Committee (ERIC), a lobby group, says that a higher rate, based on the yield on corporate bonds rated double-A, should be used. This is about one-and-a-half percentage points above the Treasury-bond yield. ERIC says that the yield on 30-year Treasuries is “artificially low”, because government buybacks and the discontinuation of the bond has reduced supply. In any case, it reflects the government's cost of borrowing, not that of a private company.

To Zvi Bodie, a finance professor at Boston University, this argument is specious. It says, in effect, that companies' greater credit risk (compared with the government's) justifies a lowering of their pension liabilities. For one thing, he argues, the PBGC guarantee makes pension liabilities as free of default risk as state-insured bank deposits. For another, the discount rate is chosen to protect pensioners, the PBGC and ultimately taxpayers against underfunding by companies. If Congress wants to subsidise weak firms, says Mr Bodie, it should do so directly, not by mucking about with accounting rules.

Rather than the 30-year bond yield, Mr Bodie would use the Treasury yield curve to value pension liabilities. This curve shows the yield on Treasury bonds of different maturities, allowing more accurate discounting of obligations falling due in different years than a single rate would.

Although the curve is easily observable—in daily newspapers, for example—and easily hedged, the debate over discount rates would not end even if it were adopted. Like the yield on 30-year bonds under the law, it would probably not be adopted “pure” but as a reference point. That would create some haggle room for industry lobbyists.

Nor would the government prefer the pure yield curve. In the short run, using it would merely push more

schemes on to the PBGC's books. Officials also worry that using the yield curve would signal implicit government support, and encourage slack funding. In the longer term, though, it would put responsibility for funding company pension schemes back where it belongs: with companies first, and with the state only as a last resort.

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Economics focus

Hot potato

Feb 13th 2003
From The Economist print edition

The Intergovernmental Panel on Climate Change had better check its calculations

Get article background

AT THE beginning of 2001 the Intergovernmental Panel on Climate Change (IPCC) released, as the main result of its massive Third Assessment Review, a set of figures that have become the most-cited numbers in the field of environmental policy, and quite possibly the most-cited numbers in any field of public policy. The panel, whose task was to assess the extent to which emissions of greenhouse gases may warm the planet over the coming century, reported that "globally averaged mean surface temperature is projected to increase by 1.4 to 5.8°C over the period 1990 to 2100." This alarming conclusion has become the starting-point for popular and official discussion of global warming and the policies that might mitigate it. Bear in mind how expensive some approaches to the problem, such as the Kyoto Protocol, might be if governments actually succeeded in implementing them. Vast sums are at stake.

As a rule, the IPCC is careful to attach warnings to its projections. Journalists are impatient with that: they prefer "prediction" to "projection" (less vague) and like to talk of temperature rising by "as much as 5.8°" rather than quoting the full range. This is all very misleading—but the panel cannot be blamed for the way its work is reported. What it can be blamed for is the seriously flawed methods it has followed in making its estimates.

In recent months, two distinguished commentators—Ian Castles of the National Centre for Development Studies at Australian National University, formerly the head of Australia's national office of statistics; and David Henderson of the Westminster Business School, formerly the chief economist of the OECD—have put together a critique of the panel's Special Report on Emissions Scenarios (SRES). The report claims to "provide the basis for future assessment of climate change", but Mr Castles and Mr Henderson point to serious flaws in its analysis and results. Last year they began writing to the chairman of the panel. Following an invitation to a technical meeting convened by the IPCC last month, they have offered further comments. The critique which thus evolved is to be published next month*.

One key problem with the IPCC's report, sufficient by itself for Mr Castles and Mr Henderson to declare the document "technically unsound", is the way the scenario-builders have based their projections of future output on national GDP estimates which have been converted to a common measure using market exchange rates. This procedure leads them to overstate the initial gaps in average incomes between rich and poor countries—because prices tend to be much lower in poor countries. Those gaps are in turn crucial for the IPCC's projections, because the method used in the scenarios assumes not only that the rich countries will continue to get richer but also, in most of the 40 scenarios considered, that the greater part of the (overstated) initial gaps between rich and poor will be closed by the end of the century.

The combination of overstated gaps and of built-in assumptions about the extent of convergence in the average incomes of rich and poor countries yields projections of GDP for developing regions which are improbably high. Even the scenarios which give the lowest figures for projected cumulative emissions in the course of the century assume that average incomes in the developing countries as a whole will increase at a much faster rate than has ever been achieved in the past.

Miracles and anomalies

The unreality of the assumptions about economic growth in developing countries is highlighted by disaggregated projections which were recently released on the SRES website. These projections imply

that, even for the lowest emission scenarios, the average income of South Africans will have overtaken that of Americans by a very wide margin by the end of the century. In fact America's per capita income will then have been surpassed not only by South Africa's, but also by that of other emerging economic powerhouses, including Algeria, Argentina, Libya, Turkey and North Korea.

The SRES summary for policymakers tells anxious governments that the 40 scenarios “together encompass the current range of uncertainties of future emissions”. Plainly, this is incorrect. The panel's low-emissions scenarios make exceptionally optimistic assumptions about economic growth in the developing world. But it is impossible to say, without running the whole exercise afresh, what the properly calculated range of projections for temperature changes would be.

Mr Castles and Mr Henderson offer a variety of other criticisms of the SRES, and of the panel's treatment of economic issues more generally. They complain, for instance, that history is too much neglected in the consideration of future trends. They also point out that developments in the first ten years of the scenario period, 1990-2000, were pretty clear by the time the SRES was published in 2000, and that in some respects they diverged substantially from the scenarios' projections; yet the report pays them little or no heed. Mr Castles and Mr Henderson argue that the circle of those involved in the climate-change exercise has been too restricted. For the future, the panel should draw on a wider range of economic and statistical interests and expertise. In particular, where its member governments are concerned, there needs to be a greater involvement of economic ministries and statistical agencies, alongside environment ministries.

The full panel meets next week in Paris to review the preparation of its Fourth Assessment Review. It should take the opportunity to consider the Castles-Henderson critique and resolve to do something about it.

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* Their letters and memos can be read here. They will be published in *Energy and Environment*, Volume 14, No. 2, forthcoming.

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Hydrogen power

These fuelish things

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From The Economist print edition

AP

The fuel cell is enchanting politicians on both sides of the Atlantic. It is too soon, though, for them to dream of freedom from fossil fuels

Get article background

WHERE in the world can you find hydrogen? At first blush, that might seem a ridiculous question: hydrogen, after all, is the commonest element in the universe. The problem is that it is rarely found in its free state on earth. If you want to get your hands on some hydrogen, you generally have to strip it away from carbon, as found in hydrocarbon fuels, or from oxygen, as found in water. Either way, energy is required to produce it. And that, in a nutshell, is the big drawback lurking behind all the recent hoopla surrounding the charms of hydrogen energy.

The hoopla began at the end of last year, when the European Commission unveiled a grand, *euro*2.1 billion ($2 billion) “hydrogen vision”. Romano Prodi, the commission's president, even declared that he wanted to be remembered for only two things: the European Union's eastward expansion, and hydrogen energy. Now, George Bush, America's president, has produced his own $1.2 billion hydrogen plan (he even examined a hydrogen-powered car, and made sure he was photographed doing so). In speeches directed at the car industry in Detroit and, on February 10th, at the oil industry in Houston, Mr Bush and his team have been making the claim that the rise of the fuel cell will consign the internal-combustion engine to the dustbin of history. And if that were not enough, Democratic rivals in Congress—trying to keep up—have just unveiled their own hydrogen initiative.

Fuel cells are devices that work rather like batteries, converting chemical energy into electricity and heat. All fuel cells combine hydrogen with oxygen to produce power. These nifty power plants can be used to run anything from a mobile phone to an office complex. Their greatest attraction is that they can do all this without generating emissions any more harmful than water vapour.

The catch, of course, is that it is first necessary to find a source of hydrogen. If renewable energy is used to split water into hydrogen and oxygen by electrolysis, then the energy produced by a fuel cell is genuinely emission-free. But if energy from a hydrocarbon such as petrol or coal is used, there will still be some unwanted emissions. That applies even if the route taken is steam reformation, in which the hydrocarbon is reacted with water vapour to liberate the hydrogen in both, rather than being used to make electricity for the electrolysis of water.

The emissions from steam reformation, though, are less than those created when the same amount of

hydrocarbon is burned in today's combustion engines. This is because fuel cells produce electricity efficiently, without combustion. And, if techniques for capturing and “sequestering” the carbon dioxide produced by hydrocarbons are perfected, it would make hydrogen from fossil fuels a great deal cleaner still.

How the ghost of you clings

Europe and America do not see eye to eye on the question of how best to generate hydrogen. Europe is putting more emphasis on renewables; America, by contrast, is keen on the possibility of deriving hydrogen from fossil fuels.

At the moment, using renewables is an expensive way of generating hydrogen (see table). So why is Europe heading in this direction? Alessandro Ovi, one of Mr Prodi's advisers, explains that Europe's push for hydrogen is motivated largely by a desire to meet its commitments to cut greenhouse gases under the Kyoto treaty on global warming. Accordingly, the EU has adopted demanding targets for increasing the share of renewable energy to 22% of the region's electricity supply by 2010, up from about half that today.

Ballooning savings

The cost of producing hydrogen

	$ per gigajoule
Electricity from nuclear power	10-12
Electricity from coal/gas minus CO_2	15-18
Hydrogen from coal/gas/oil	1-5
Hydrogen from natural gas minus CO_2	8-10
Hydrogen from coal minus CO_2	10-13
Hydrogen from biomass	12-18
Hydrogen from nuclear power	15-20
Hydrogen from onshore wind	15-25
Hydrogen from offshore wind	20-30
Hydrogen from solar cells	25-50

Source: International Energy Agency

Such a target for renewable energy sounds pretty green, but there is a snag: wind and solar energy are intermittent, and unlike other commodities—be they bananas or natural gas—there is no good way to store electricity for later use. No way, that is, unless you use renewable energy to produce hydrogen, and store this instead. It can then be used when the power grid is facing peak demand and the price of energy thus increases. Dr Ovi thinks hydrogen could transform the economics of renewables and play an essential role in the EU's clean-energy strategy.

Mr Bush's plan pushes instead for hydrogen via fossil fuels, because greenery is not the only attraction of fuel cells. Mr Bush insists that hydrogen is a good way to bolster his country's “energy independence” from Middle Eastern oil. Hydrogen can be made from America's plentiful supplies of coal, as well as from locally produced biomass and renewable energy, says John Marburger, Mr Bush's top science adviser. Thus, America's reliance on oil from fickle foreign regimes will decline. That vision of energy independence through fossil hydrogen is also gaining popularity among the leadership in coal-rich but oil-starved China.

Does that mean the American approach is ungreen? Not necessarily. Even if fossil fuels were used to produce hydrogen without sequestration, fuel-cell-powered cars would still produce zero local emissions on roads. (Wags call this “drive here, pollute elsewhere”.) Further, hydrogen is likely to be produced by some green sources anyway: in the Pacific north-west, hydro-electric power is dirt cheap at night, and on the windswept Great Plains renewables or biomass may prove more economic than fossil fuels.

If America pursues its hydrogen vision by using fossil fuels with techniques such as sequestration, a technology Mr Bush has repeatedly applauded, its hydrogen embrace will indeed be greener than green. What is more, if Big Oil also gets behind hydrogen—as it is now starting to do thanks to the new push from the Texan oilman in the White House—the thorny question of where you can find hydrogen could one day become very simple to answer. Right at your corner petrol station.

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Biofuel cells

Power in the people

Feb 13th 2003
From The Economist print edition

Researchers are working on a high-voltage fuel cell that runs on bodily fluids

IT SOUNDS improbable. But the human body could turn out to be an ideal location for a new type of power plant that uses bodily fluids to generate energy. Such a device might be used to power miniature medical sensors implanted under the skin. The power plant, a kind of fuel cell, is only a few microns across (a micron is a millionth of a metre). It is described in the current issue of *Chemical Communications*.

Nicolas Mano of the University of Texas at Austin and his colleagues, together with Fei Mao of TheraSense, a Californian company, were looking for a suitable power source for implantable sensors and the amplifier-transmitter circuits that report those sensors' results. Anything powered by batteries would be too bulky. Existing fuel cells produce electrical energy by mixing chemicals that are supplied continuously from an external tank—hence they are also bulky. If, however, the chemicals were available in the environment in which a fuel cell operated, the cell could be made very small. The key to the "biofuel" cell that the researchers have invented is that the power-generating chemicals are glucose and oxygen—both of which are found in blood and body tissues.

The biofuel cell consists of two carbon fibres, each seven microns in diameter, that act as electrodes. The cell is encased in a polymer resin, with its electrodes sticking out. Glucose is oxidised by a coating of enzymes on the anode (the positive electrode); oxygen dissolves at the cathode, and is reduced to water by another enzyme coating.

As glucose molecules release electrons, and oxygen molecules absorb them, an electric current flows. This generates 0.6 microwatts of power and almost 0.8 volts when the cell is operating at body temperature. That might not sound a lot, but it is just right for running a silicon chip. Which means that implantable sensor-transmitters and drug-delivery devices only a few millimetres across could actually be built.

Biofuel cells are still experimental, and their first practical use will probably be in equipment that allows biologists to track insects and other small animals, rather than in anything medical. Nevertheless, TheraSense hopes that one day it might be able to use biofuel cells for such things as powering miniature monitors for diabetics. Implanted under a patient's skin, such a monitor could discreetly alert him to dangerous variations in his glucose levels. If biofuel cells do take off, the notion of being a high-powered individual could take on an entirely new meaning.

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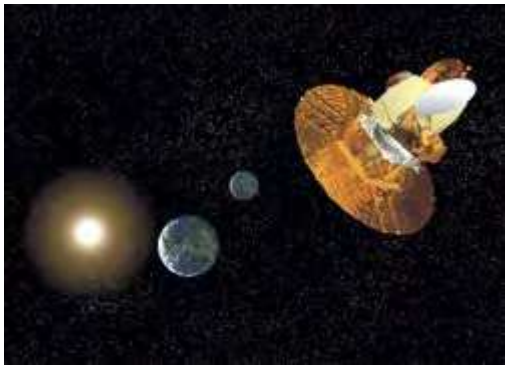
The universe

Just right

Feb 13th 2003
From The Economist print edition

The age and composition of the universe have now been established



HOW old is the universe? What is it made of? How did it start? People have asked these questions since the dawn of humanity, but the answers have kept changing. Now, they may change no longer. An American satellite called the Wilkinson Microwave Anisotropy Probe (WMAP) has just provided answers that are more precise, and more certain, than ever before. The universe is 13.7 billion years old. It is made of three substances. And a theory of its beginning, known as inflation, is correct.

The WMAP measures small variations in the cosmic microwave background (CMB)—cool radiation created only 380,000 years (another figure that has now been nailed down) after the Big Bang. By measuring the size of hot and cold spots in the CMB, it is possible to deduce how far away they are, and thus how old the universe is. Hot and cold, though, are relative terms. The CMB is a few degrees above absolute zero. Theorists had predicted that its temperature would vary by a tiny amount (millionths of a degree) over the sky. This was confirmed in 1992 by a satellite called COBE (Cosmic Background Explorer). But, although COBE's temperature sensitivity was adequate, its angular resolution was poor, so it could not distinguish the features necessary to gauge the universe's age.

WMAP has 30 times the angular resolution of COBE, and 35 times its sensitivity to temperature. This allows it to establish precise details of the universe's composition that were previously known only roughly. A mere 4.4% of the universe, it seems, is made up of “ordinary” matter (ie, the stuff of atoms). Around another 23% is made of “cold dark matter”, whose nature is unknown. And 73% is the still more mysterious “dark energy”, which acts as a repulsive force, driving the rest apart.

Because it also measures the polarisation of the CMB with great sensitivity (polarisation shows how jumbled electromagnetic waves are), WMAP has established that the first stars formed when the universe was a mere 200m years old. This, though, was well beyond the inflationary period—an instant just after the Big Bang when the universe expanded super-rapidly. Inflation (which explains why the universe is, in a three-dimensional sense, flat) predicts what the statistical distribution of hot and cold patches should be. The WMAP confirms that it is so. Truth, it seems, is just as strange as theory.

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About sponsorship

Man and beast

Animal attraction

Feb 13th 2003 | DRESDEN
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Humans have a paradoxical relationship with animals

Ellen Kok

It must be love

THE only wild wolf in the German state of Lower Saxony was killed last month. A hunter disturbed her at her deer dinner and panicked. Meanwhile, German police were out looking for an elephant. Her owner had been denied custody for mistreating her, and they both ran away from the circus.

The relationship between humans and animals is certainly strange. So strange that the Deutsches Hygiene Museum, in Dresden, has thought it worthwhile to stage an exhibition on the subject. Visitors can admire the antlers of deer shot by Joseph Goebbels, the Nazi propaganda minister, and by Erich Honecker, one of East Germany's communist leaders. They can contemplate a Roman tool used for castrating horses and gape over a dog's wedding dress from the United States. Meanwhile, at a more erudite level, a meeting of psychologists, zoologists and philosophers held in the museum at the end of January took stock of human-animal relations.

Those relations, according to the conference's participants, have never been good. Most species are ignored, either because they have not been discovered or because they are not useful. And of those that are noticed, most are killed: as pests, for sport, for food, or for knowledge.

That need not be a problem. After all, people are people and animals are animals, aren't they? At the exhibition, a woodcut of “The Ladder of Life”, made in 1740, shows who is master and who servant. But present-day law tells a different story. Last year, for example, the German constitution was changed to include the right of animals to be treated decently. In New Zealand, the Animal Welfare Act of 1999 confers special status on “non-human hominids”, ie, great apes. These animals are not to be experimented on, unless the research actually benefits apes and the benefit outweighs the discomfort or suffering of the animals involved.

The Great Ape Project, a group that campaigns for better treatment, counts this law as the biggest success in its attempts to get people to treat their nearest relatives with more respect. But in truth, people have always needed moral support to justify killing beings that, once opened, turn out to look very much like themselves. As Walter Burkert, a Swiss classicist, told the meeting, a sheep destined for sacrifice in ancient Greece would have water poured into its ear. The vigorous head shaking that followed was construed by the priests as permission to proceed with the knife.

Scientists, too, have wrestled with such feelings—particularly when large-scale animal experiments started in the 18th century. Ursula Jauch, a philosopher at Zurich University, told the conference how Albrecht von Haller, an early physiologist, was consumed by guilt about what he did to God's creatures while studying the “irritability” of muscles by electricity.

One balm for Haller's dilemma was Cartesianism: the idea that only human beings are sentient and animals are just cleverly created machines. This had been proposed a century earlier by René Descartes. But according to Dr Jauch, Descartes himself was not actually very Cartesian. He did say that animals were like machines, but he also mused, when looking at people, that they might be machines, too. Nevertheless, a “vulgar” version of his mechanistic stance caught on in the 18th century and soothed the conscience of many a scientist. It ran contrary to all reasonable interpretations of Descartes's writings. Dr

Jauch concludes that the need to have such a vulgar Cartesianism must have been enormous.

Even so, Cartesianism, vulgar or otherwise, never quite won the day. Father Bougeant, a Jesuit priest of the period, wrote that nobody ever stroked or patted a clock for striking the hour, in the way that animals are petted. And Julien Offray de la Mettrie, a biologist, wrote a satirical extension of Cartesianism, claiming again that people were machines too. He dedicated his book to Haller as the quintessential mechanical man: what other kind of person would be able to cut open a live dog to satisfy his curiosity?

Since then, as the Dresden exhibition shows, much work has gone into technology designed to replace the use of animals in research. But German scientists still fear the consequences of the animal-protection clause in their constitution. Meanwhile, in Lower Saxony, efforts are being made to try to re-establish the wolf. Again. And the elephant has been found safe and well. She has been put into a new home, in another circus.

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The Richard Casement internship

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From The Economist print edition

We invite applications for the 2003 Richard Casement internship. This is for a would-be journalist under 25 to spend three months of the summer on the newspaper, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words which they think would be suitable for publication in the Science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. Applications must reach us by February 24th. They should be sent by e-mail to casement@economist.com

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About sponsorship

Gabriel García Márquez

The face of nostalgia

Feb 13th 2003
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Ever the storyteller, Colombia's Nobel laureate recalls his early life

GABRIEL GARCIA MARQUEZ, now 75 and suffering from cancer, made the most important decision of his life as a writer when he was 22—to accompany his mother on a journey, by steamer and rickety train, to Aracataca, a small town surrounded by swamps and banana plantations in the heart of Colombia's northern coastal plain. The ostensible purpose of the trip was to sell his grandparents' house, where the author was born and had spent most of his first eight years.

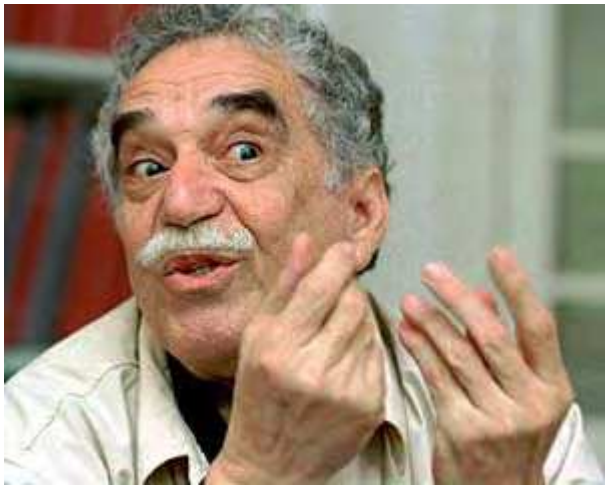
Vivir para contarla
By Gabriel García Márquez

Knopf; 573 pages; $25. To be published in English by Knopf in autumn 2003

Buy it at
Amazon.com
Amazon.co.uk

As Mr García Márquez observes in the opening pages of “Vivir para contarla” (Living to tell it), the memoir of his life to early manhood, “until adolescence, the memory is more interested in the future than the past, so my memories of the town were not yet idealised by nostalgia.” The family did not sell the house, which was both tenanted and in disrepair. But his visit to Aracataca was decisive in creating in his imagination the idealised world that so many of his readers have come to love.

AP



Aracataca was to mutate into Macondo—the name plucked from a railside banana plantation—and his grandfather provided the model for Colonel Aureliano Buendía in “One Hundred Years of Solitude”, published in 1967. In its creation of a tropical world where the absurd and improbable becomes routine, its colourful exaggeration, its joyful jumbling of humour and tragedy, and its celebration of the extraordinary lives of ordinary people, the novel came to epitomise Latin American magical realism. It won its author a Nobel prize, and established him as the most successful, if not necessarily the greatest, of a gifted generation of novelists.

That success was based on his talent as a storyteller, which he marries to a poetic style and a sharp descriptive sense. Unlike many writers of Spanish, he prefers short and simple sentences, which give his writing a limpid intensity. His broadly leftish views and his friendships with the likes of Fidel Castro have made him the darling of Latin America's chattering classes.

This first volume of his memoirs has been eagerly awaited; now here, it is lording it over the Spanish-speaking world's bestseller lists, including that for the Hispanic market in the United States. Mr García

Márquez's fans will not be disappointed. Once again, he mines the rich seam of his memories of Colombia's Caribbean coast from the 1920s to the 1950s that provide the material for his novels.

The book is suffused with a warm-hearted nostalgia for that world, in which the main preoccupations were love, sex, music, death, honour and the family. It is a world of unrepentant machismo. His mother's family was “a vast sisterhood of single women and unzipped men with numerous street children”. The writer describes his own deflowering by an eager and generous prostitute when he went, aged 14, to the local brothel to collect a bill for his father, a self-taught homeopathic chemist. Years of carousing in brothels with literary boon companions followed.

Even today, the Caribbean coast is markedly different from Andean Colombia, its people noisier and more outgoing. Back then, before it was troubled by drug traffickers, it was an easygoing tropical outpost. Bogotá, the capital, was a week or more away, up the Magdalena river. This was a journey the young García Márquez would make himself when he won a government scholarship to a secondary school near Bogotá. He then spent a year studying law and watching at close quarters the riots of 1948, which foreshadowed a decade of civil violence.

Interestingly, his memoir reveals its author to be a man of few deep convictions, for whom friendship is far more important than politics. He jokes of “a reputation as a communist that I had not won for my ideology but rather for my manner of dress”. The riots gave him a pretext for dropping out of university and returning to the coast. Already noticed as a budding writer, he scratched an impecunious living from journalism, which he saw as a form of literature. That took him back to Bogotá; the book ends with its author, aged 28, leaving for Europe.

Though the predominant tone is self-indulgent, Mr García Márquez does give glimpses of private torment. His family often struggled in respectable poverty. We learn that he lived with his parents for a total of only three years: their place was taken by his grandparents, books, friends and drinking. He reveals little of what he thought about this. But a picture emerges of a shy, determined, precocious youth, who would yell out in his troubled sleep. The eldest of 11 children, he was clearly both stimulated and troubled by the high hopes that his parents had for him.

This memoir may not win over those who have resisted being persuaded that Mr García Márquez is a great, rather than a very good, writer. His style is one of much poetry but sometimes less meaning than meets the eye: in a typical sentence, he says of his grandfather that “I knew what he was thinking by the changes in his silence.” And fecund though it was, magical realism has much to answer for: Mr García Márquez has rarely let historical fact get in the way of a good story, and Latin American journalism has suffered much from the blurring of its boundaries with fiction. But most readers will not mind. They will simply enjoy the anecdotes and the prose of a master of the narrative art and of the Spanish language.

Vivir para contarla.
By Gabriel García Márquez.
Knopf; 573 pages; $25. To be published in English by Knopf in autumn 2003

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Russian writers

Hidden agenda

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THE clarity of Anton Chekhov's language, his published letters and the biographical facts give one the illusion of knowing him. But the man who wrote “Three Sisters” is among the most secretive of writers. We learn as little about Chekhov from reading his plays as we do about Shakespeare from reading “Hamlet”. Despite his simple words and laconic sentences, he is one of the most difficult Russian authors to translate for the simple reason that so much remains hidden between his words.

Chekhov's “hiddenness” is one of the main motifs and motives of Janet Malcolm's book. To move beyond “the straightforward, natural, rational modern surface of Chekhov's prose” and into the area of the “wild, strange and archaic”, the New York journalist undertakes two journeys: a physical one—to Moscow and Yalta, where Chekhov was exiled by his tuberculosis, and a metaphysical one—into his letters and stories. Both are done through translations.

The first, physical journey, yields little more than clichéd observations familiar to any foreign traveller to Russia: lost luggage, depressing concrete-block hotels, and interpreters who turn out to be as irritating as they are warm-hearted. The critical journey produces a series of sharp and witty observations about Chekhov's life and work. On the way Ms Malcolm tears down the clichéd perception of Chekhov as a poet of Russian melancholy and destroys the saccharine image and “sickening piety” that his name attracts, though she offers little in its place.

Ms Malcolm is far too clever to suggest that a visit to Chekhov's houses—one of which has been completely rebuilt—can bring her closer to the meaning of his stories. The physical travelling that might have stimulated the creative process leaves an impression of scaffolding left behind after an elegant building has been completed. Her travelogue obstructs many of the book's finest features.

One of these is the way it shows how Chekhov's secretiveness, his inability to feel close to anyone—man or God—and his sense of mortality all shaped his literary universe. “He did not merely withhold information about his literary practice, the practice itself was a kind of exercise in withholding.” Most important, Ms Malcolm's book makes you want to read or reread the master's works, and that is a pleasure indeed.

Reading Chekhov: A Critical Journey.
By Janet Malcolm.
Random House; 224 pages; $23.95.
Granta Books; £13.99

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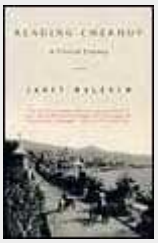

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About sponsorship

Exploited women

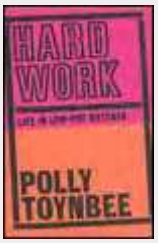
The three Cs

Feb 13th 2003
From The Economist print edition

A PARADISE exists in central London for working mothers' toddlers: a luxurious, well-staffed nursery run by a private company called Kinderquest. According to Polly Toynbee, the lavishness of it all takes your breath away: tall, airy rooms; bright carpets and good wood fittings; gleaming new toys and books, computers, slides and climbing frames. Furthermore, to keep one child there costs the parents only £120 ($193) a week.

It sounds too good to be true but Ms Toynbee, a *Guardian* columnist turned investigative reporter, knows about the facility at first hand. It is at the Foreign Office and she was employed there as a nursery assistant last year when she accepted a Christian challenge to live during Lent doing menial jobs paying low wages. And in this book the nursery serves for her as a particularly stark example of the large, widening gap between the affluent and the poor in 21st-century Britain.

Hard Work: Life in Low-Pay Britain
By Polly Toynbee



Bloomsbury; 242 pages; £6.99

Buy it at Amazon.co.uk

Ms Toynbee is in her mid-50s and admits she loves life's luxuries. So her friends were astounded when they learnt she had lived for 40 days in a dank, draughty council flat on a sink estate and earned her living taking jobs in the three sectors traditionally stigmatised as suitable mainly for women: catering, cleaning and caring. “If I had said I had just been up the Amazon alone in a dugout they would have been far less interested in my traveller's tales.”

As she is well aware, even on the minimum wage she was well off compared with peasants and slum dwellers in Africa and Latin America. In Britain, she writes, 92% of households have a fridge and 98% have a telephone. But, she argues, relative poverty is what really matters to people within a wealthy country. Families at the bottom cannot help but compare their living standards with those of the relatively affluent majority.

It is a matter of self-esteem as well as income. Ms Toynbee learnt that menial workers are invisible. As a hospital porter she was simply not recognised by consultants who knew her well as a journalist. The same thing happened in Whitehall, where her fears of having her cover blown when she perambulated the infants of diplomats proved baseless. Old friends and contacts in the ministries just saw a nursemaid.

The low-paid lack status too. Young medical students never held a door open for her when she was a hospital porter, even when she was in charge of a patient in a wheelchair. She was kept waiting for hours on end for job interviews. Nobody ever offered to reimburse her travel expenses, and some employers expected her to pay for her uniform.

Yet some of the jobs she held were by any standards worthwhile. She worked, for instance, on what she unflinchingly calls “death row”: a nursing home for old, feeble-minded and incontinent people. It was emotionally draining work, “hurrying from drama to drama, from one suffering and demanding person to another, torn between pity, anxiety and irritation.” For this she was paid £4.85 an hour for shifts that included evenings and weekends.

Like others in low-paid jobs, care-workers do not in the main belong to unions. Ms Toynbee fantasises about them joining a militant one. Their power, she says, would immediately be revealed as immense if they all walked out of their nursing homes one fine morning. Soldiers stand in for striking firefighters, but who could and would do the essential but grossly undervalued jobs of care-workers?

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Exhibition attendances in 2002

Showcasing

Feb 13th 2003
From The Economist print edition

The busiest shows are rarely the most enjoyable

SUNFLOWERS, sunsets and Tahitian maidens proved the greatest draws last year as visitors on both sides of the Atlantic flocked to see paintings by Vincent Van Gogh and his friend, Paul Gauguin, in Amsterdam and Chicago. Nearly 7,000 visitors a day poured into the shows, just short of the number who queued outside New York's Metropolitan Museum to see Vermeer's velvet-skinned girls and Jacqueline Kennedy's dresses in New York the previous year.

The busiest

Daily	Total	Exhibition	Venue
6,719	739,117	Van Gogh and Gauguin	Van Gogh Museum, Amsterdam
6,281	690,951	Van Gogh and Gauguin	Art Institute of Chicago
5,616	516,711	Masterpieces from the Prado Museum	National Museum of Western Art, Tokyo
4,671	467,166	Matisse/Picasso	Tate Modern, London
4,500	450,000	Surrealist Revolution	Centre Georges Pompidou, Paris
4,285	450,000	The Artists of the Pharaohs	Musée du Louvre, Paris
4,074	289,239	The Secret Gallery and the Nude	Museo del Prado, Madrid
4,052	218,801	Andy Warhol	Tate Modern, London
4,026	430,772	Treasures of Ancient Egypt	National Gallery of Art, Washington
4,020	333,695	Gerhard Richter	Museum of Modern Art, New York

The emptiest

779	82,594	Buddha: Radiant Awakening	Art Gallery of New South Wales, Sydney
779	101,216	Art from the Chicago Public Schools Collection	Art Institute of Chicago
777	76,919	Andreas Gursky	Museum of Contemporary Art, Chicago
776	38,000	Milan in a Van	Victoria and Albert Museum, London
770	43,149	Richard Artschwager	Serpentine Gallery, London
770	73,160	Impressionist Still-Life	Phillips Collection, Washington
770	81,643	New Architecture in LA and Douglas Gordon	Museum of Contemporary Art, Los Angeles
767	47,559	American Sublime	Pennsylvania Academy of the Fine Arts, Philadelphia
766	119,575	New York Renaissance from the Whitney Museum	Palazzo Reale, Milan
760	70,704	Treasures from the Kremlin	Indianapolis Museum of Art

Source: *The Art Newspaper*

Popularity comes at a price, though. Blockbuster exhibitions have become less an exercise in looking than glimpsing—a flash of colour here, a breast there. The more popular the show, the less you really see, as anyone who queued to view the Matisse/Picasso show at London's Tate Modern will tell you.

Canny visitors might conclude then that it is wiser to go and see these pictures in their permanent collections and restrict visits to special exhibitions to lesser known artists or out-of-the-way places. The Andreas Gursky retrospective in Chicago and Pennsylvania Academy of Art's “American Sublime” drew a tenth of those who flocked to Van Gogh. Why be part of a crowd?

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Modern Italy

Canzonissima culture

Feb 13th 2003
From The Economist print edition

TOBIAS JONES is in love with Italy. That should be no surprise. His countrymen, the British, have for centuries been susceptible to the charms of the *bel paese*. Unlike France or Germany, Italy does not challenge the British at any of the pursuits they are best at: parliamentary democracy, fighting wars and writing plays. Instead, it excels in spheres in which the Brits invest little pride: cooking, painting, music and living life with a general sense of style. It is a complementary match of masculine and feminine characters. All too often, though, it is a mismatch of understanding.

The Dark Heart of Italy: Travels Through Space and Time Across Italy
By Tobias Jones

Faber and Faber; 266 pages; £16.99

Buy it at Amazon.co.uk

It was, anyway, for Mr Jones, when he went to live in Italy in 1999. This book is his attempt to make sense of it all, and in particular to make sense of Italy's strange political condition. It is thus obliquely, though not exclusively, about Silvio Berlusconi, the smiling media-tycoon-cum-prime-minister who dominates so many aspects of Italian life.

The extent of this domination is extraordinary. So is the fact that millions of Italians do not find it so. In which other western democracy could a candidate festooned with business encumbrances and legal embarrassments be elected to the highest position in the land? And where else would he then be able to hold that office without resolving his many conflicts of interest, and thereafter mount a campaign against the judiciary, all the while escaping the sort of hard questioning by journalists that politicians in most other democracies must regard as routine?

Mr Berlusconi is a consummate salesman and he knows his market well. Centuries of rule by Bourbons, Habsburgs and other foreigners have made the Italians mistrustful of the state, scornful of paying taxes, disdainful even of keeping the law. A culture of impunity prevails: *non paga nessuno*, says a small, moral minority, “which basically means that no one in Italy is ever, ever punished for anything.” No matter, then, if someone cuts a few corners. Cutting a fine figure is what counts.

Mr Berlusconi anyway has managed to present himself not as another unscrupulous politician but as a hugely successful self-made businessman, whose optimism and entrepreneurial skills will lead Italy into a new era. The desirability of that aim is not in doubt. The second half of the country's short life—it was unified only in 1861—has been marked by fascism, revolving-door governments, terrorism and corruption, culminating in the removal of virtually the entire political establishment in the 1990s. But respectability still eludes Italy's politics. Instead, it has the phenomenon of Mr Berlusconi.

Mr Jones tries to account for this by taking the reader through a series of topics viewed through his own personal lens. Like a good journalist, he conveys his wonderment at much that he sees, such as the awfulness of Italian television, whose real problem, he says, “isn't that it's political in the purest sense; it's that it's not political at all. The only thing on offer is bosoms, football and money.” He dwells on two controversial trials, one concerning a murder committed in 1972, the other concerning a bombing by far-right fanatics in 1969. He ponders the Italian language, which has no words to express such concepts as “hangover”, “condescension” or “self-control”. He shudders at Italy's fourth estate and its bureaucrats. He uses the cult of Padre Pio to examine the conditioning of the national character by the Catholic church. He delights in the elegance and skill of Italian footballers. And he recoils at the thousands of buildings put up in defiance of planning laws but never pulled down—a consequence, often, of the collusion between politicians, builders and, in some places, the Mafia.

In the course of this journey “through time and space”, Mr Jones explains how ugliness or a lack of style is a bigger sin in Italian eyes than immorality; how prone Italians are to *dietrologia*, conspiracy-theorising; why they often liken their country to a whore (used, not loved); why their journalists are so

verbose; why the prudent always settle their bills in cash, never by direct debit; and why Italian society is not just conformist and hierarchical, but also, thanks to television, culturally arid. Much is thus demystified, and in a most readable way. But one puzzle remains: why, in the face of so many reprehensible characteristics, Mr Jones remains in love—with the country, as well as with the girl who brought him there. The football must be really wonderful.

The Dark Heart of Italy: Travels Through Space and Time Across Italy.
By Tobias Jones.
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About sponsorship

The wild west

Lonesome doves

Feb 13th 2003
From The Economist print edition

Adventuring and adventurers

THE Lewis and Clark expedition that began preparations in 1803 had everything: grand adventure, heroism, friendship and scholarship. It was modelled on Captain Cook's voyages and its sponsor, Thomas Jefferson, meant it to document, command and profit from what lay beyond Missouri. Although the dream of a north-west passage to India ended the moment Meriwether Lewis and his dog Seaman crossed the continental divide, new dreams replaced it—America as a continental power and dreams of the west itself, of cattlemen, silvermen, railwaymen, and the rest.

Two centuries on, modern writers and historians still have a hard time matching the sweep of Lewis and Clark's own journals. This is especially true of Brian Hall, whose third novel is based on the expedition's main characters. His narrative judders between primitive Indian voices and delicate American ones, with the French trapper somewhere in between. Extracts from the expeditionary journal are more intriguing than the narrative he spins around them. Mr Hall gains only towards the end when the journals peter out and his imagination begins to bloom. Suffering acute depression, Lewis shoots himself and dies slowly: “He picks up a leaf. His hand is bloody, but...Red maple. *Acer rubrum.* He turns the leaf over. The feel of it in his hands. He will miss this.”

Thomas Slaughter opens his extended essay on Lewis and Clark with a Joseph Campell-like comparison of creation myths. Some of the Indian peoples the expedition encountered had an Eden of their own. “Lone Man is born to a Mandan virgin, who conceives him by ingesting a kernel of corn.” His chapters are called “Dreams”, “Possessions”, “Hunting Themselves” and, inevitably, “Being First”. The chapter on the nature of possession is illuminating. Who owns a horse on the prairie? Was it wrong for the Sioux to pilfer from the expedition? We are reminded that Lewis and Clark traversed a land that no longer exists. The oceanic prairie has been sectioned and buffalo have been replaced by cattle and slaughter-houses; the coho salmon that Lewis sketched with such interest is nearly extinct in the rivers where the expedition found it in abundance. Lewis and Clark are more than adventurers, Mr Slaughter maintains. We keep returning to them because “they are a better guide to our souls than our skins.”

After so much male angst it is refreshing to turn to Virginia Scharff's sassy reflection on the movement of women through the west. The first and strongest of her subjects is Sacagawea, an Indian woman who proved an invaluable guide and translator for Lewis and Clark. Despite her posthumous fame—she appears on American currency and in textbooks—little is certain about Sacagawea. Her name changed with the different Indian nations the expedition passed through: Flirt, Lost Woman, Chief, Grass Woman. She may have lived until 1884 in Wyoming's Wind River Indian reservation or she may have died 60 years earlier and a thousand miles away. Her obscurity, Ms Scharff argues, has been the fate of most women in the west, in contrast to Lewis and Clark.

I Should Be Extremely Happy in Your Company: A Novel of Lewis and Clark.
By Brian Hall.

I Should Be Extremely Happy in Your Company: A Novel of Lewis and Clark
By Brian Hall

Viking; 419 pages; $25.95

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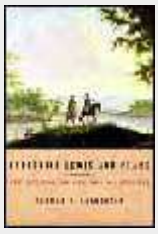
Exploring Lewis and Clark: Reflections on Men and Wilderness
By Thomas P. Slaughter



Knopf; 231 pages; $24

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About sponsorship

Manfred von Brauchitsch

Feb 13th 2003
From The Economist print edition

Manfred von Brauchitsch, titan of motor racing, died on February 5th, aged 97

AKG

DONINGTON HALL is a 17th century house in the English Midlands. In the 1930s its owner was persuaded that motor sport was a suitable interest for a gentleman and arranged for a racing circuit, two miles long, to be built in the grounds. It soon became popular, with the smell of motor fuel blending with the scent of the woodlands. In 1937 there was an air of particular excitement among the frequenters of Donington. The Germans were coming. In racing circuits throughout Europe two German teams, from the factories of Mercedes-Benz and Auto Union, had created something of a legend, and indeed a sense of fear, among their competitors as a result of their prowess. Some 50,000 people turned up at Donington to check the legend. The German who seemed to catch everyone's eye was Manfred von Brauchitsch, a driver in the Mercedes team.

He had a bearing that seemed to confirm his Prussian military background. He drove as though he were leading his men into battle; pushing his car to its limits, seemingly intent on destroying the engine, smashing the gear box, ruining the tyres and wrecking the brakes. And what a car it was. The regulations at the time limited the weight of a grand prix car to 750kg, but put no limit on the size of the engine. The mighty engines of the German cars tended to lift the rear wheels at speed, especially on Donington's bumpy track. You could see the driver's elbows rise and fall as he sought to control the car. “We had to hold on to the wheel tightly to avoid being thrown out,” Mr von Brauchitsch recalled. Nor did the driver have much protection if he lost control: a thin leather helmet, overalls and no seat belt.

The British drivers at Donington that day had believed that their more obedient cars and their familiarity with the track would give them an advantage over the Germans. But the Germans won easily, their slowest cars outpacing the fastest British ones. The spectators were not disappointed. Nostalgic fans of motor racing talk of 1937 being the year of the titans such as Mr von Brauchitsch, even if they were not born then.

When a car breaks up

What has changed in motor racing since the days of the titans? Perhaps two developments are worth mentioning. The sport has become safer; or, rather, less dangerous. In a modern racing car the driver is encased in a protective capsule designed to remain intact in a crash even though the rest of the car may disintegrate. A crash can still destroy a driver's nerve, but the days are past when it was usual for

several top-class drivers to be killed during a racing season. In Formula One racing no driver has been killed during the past eight years. Motor racing is no longer seen as a blood sport. Michael Schumacher, whose Ferrari team won 11 of the 13 races in the most recent Formula One season, is an unflamboyant entertainer. The sight of the German's red car consistently ahead of its rivals delights those who appreciate his extraordinary skills, although it may no longer be attractive for millions of television watchers seeking more obvious thrills.

The other change is that Mr von Brauchitsch and many of his fellow German drivers were fiercely nationalistic. It is unclear whether the Prussian landowner much cared for Hitler, who came to power in Germany in 1933. But he approved of Hitler's decision to subsidise German motor racing teams and dispatch them to triumph on the tracks of Europe and Britain. His preferred career had been the army. In 1924 he had joined the country's defence force, the “army” of 100,000 men allowed to Germany by the victors of the first world war, but he left after he was injured in a motor-cycle accident. (An uncle rose to become Germany's army chief at the start of the second world war.)

Mr von Brauchitsch borrowed a sports car from a cousin and learnt the rudiments of racing on minor tracks. In 1932 he decided to try for the big time. By now he had his own Mercedes, and entered a race in Berlin against some of the country's top stars. He was the outsider, but it was worth a try. He fitted a streamlined body to his car to give it an extra edge. He won the race and was immediately offered a place in the Mercedes team.

Mr von Brauchitsch won 45 grand prix races over six seasons. He could have won more had he driven his cars less ruthlessly. Sometimes he would be within yards of winning when his flogged engine gave up the ghost. Nor did he spare himself. Because of his injuries he was given a desk job during the war, for a period as secretary to a general. He never returned to motor racing and in 1955 he suddenly, and surprisingly, moved to East Germany, announcing that he could not stand Konrad Adenaur's government. Nor could many other Germans, but the communists were hardly a better choice.

However, the von Brauchitsch ancestral estates were in communist hands. Could he have them back, please? The communists were delighted to welcome one of Germany's most famous sportsmen and made him president of their motor sports association. But the land question, he had to understand, was very difficult. Of course, the lands were never handed over. Perhaps Mr von Brauchitsch never really expected to win against the odds. But it was always worth a try.

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Overview

Feb 13th 2003
From The Economist print edition

America's unemployment fell to 5.7% in January, down from 6.0% in December. Although some economists took that as a sign of a labour-market recovery, others worried that the rise in jobs was due merely to seasonal effects and a change in survey methods. Manufacturers continued to shed jobs in December, for the 30th month in a row.

After pessimistic remarks about the economy by Alan Greenspan and amid heightened warnings of possible terrorist attacks, the **Dow Jones Industrial Average** fell to its lowest level in four months.

December's industrial-production figures cast a pall over the **euro area's** economies. French industrial output fell by 1.7%, the biggest drop in five years, with cars and consumer goods seeing the largest decline. Industrial output in Germany recorded its biggest fall in four years, with a 2.6% drop.

British businesses followed the lead of their peers across the channel: industrial production declined by 0.2% in December, and by 1.4% over the 12 months to December. However, unemployment hit a 27-year low in January; only 3.1% of the labour force are claiming benefits.

Japan's broad-money supply growth slowed to 2.0% in the year to January, down from 3.5% a year earlier. Slower monetary growth poses a special danger in Japan's deflationary economy.

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Output, demand and jobs

Feb 13th 2003
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 3.5	+ 3.7 Q3	+ 3.7	+ 3.2	+ 1.6 Q3	+ 5.4 Q4	6.1 Jan	7.0
Austria	+ 0.3	+ 1.2 Q3	+ 0.8	+ 1.3	+ 1.7 Nov	+ 0.6 Nov	4.2 Dec	3.9
Belgium	+ 1.8	+ 0.9 Q3	+ 0.7	+ 1.4	− 0.8 Dec	− 0.9 Nov	11.9 Jan†	10.9
Britain	+ 1.3	+ 2.2 Q4	+ 1.7	+ 2.3	− 1.4 Dec	+ 6.4 Dec	5.1 Dec††	5.2
Canada	+ 3.1	+ 4.0 Q3	+ 3.3	+ 3.1	+ 4.9 Nov	+ 2.4 Nov	7.4 Jan	7.9
Denmark	− 2.6	+ 1.1 Q3	+ 1.6	+ 1.7	− 1.7 Dec	+ 7.5 Oct	5.4 Dec	5.1
France	+ 0.9	+ 1.0 Q3	+ 1.0	+ 1.5	− 0.1 Dec	− 1.9 Dec	9.1 Dec	8.8
Germany	+ 1.1	+ 0.4 Q3	+ 0.2	+ 0.6	− 0.5 Dec	− 3.2 Dec	10.3 Jan§	9.6
Italy	+ 1.1	+ 0.5 Q3	+ 0.4	+ 1.2	− 1.1 Nov	+ 1.9 Nov‡	8.9 Oct	9.3
Japan	+ 3.2	+ 1.3 Q3	− 0.3	+ 0.2	+ 6.7 Dec	− 3.0 Dec	5.5 Dec	5.5
Netherlands	+ 0.4	+ 0.3 Q4	+ 0.2	+ 0.9	− 6.8 Dec	− 2.5 Dec	2.5 Dec**	1.8
Spain	+ 3.2	+ 1.8 Q3	+ 2.0	+ 2.3	+ 2.5 Dec	+ 4.8 Nov‡	12.0 Dec	10.7
Sweden	+ 1.6	+ 2.0 Q3	+ 1.8	+ 2.0	− 0.5 Nov	+ 5.9 Dec	4.1 Dec†	3.6
Switzerland	+ 1.3	+ 0.6 Q3	nil	+ 0.9	− 3.5 Q3	− 4.1 Nov	3.8 Jan†	2.6
United States	+ 0.7	+ 2.8 Q4	+ 2.4	+ 2.5	+ 2.1 Dec	+ 4.9 Dec	5.7 Jan	5.6
Euro area	+ 1.2	+ 0.9 Q3	+ 0.7	+ 1.3	+ 3.0 Nov	− 0.4 Nov	8.5 Dec	8.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 1.9	+ 2.3 Q3	na	na	+ 7.9 Dec	+ 3.8 Oct	8.1 Dec†	8.1
Greece	na	+ 3.6 Q3	na	na	+ 5.0 Dec	na	na	na
Iceland	na	+ 3.62001	na	na	+12.2 2001	na	2.6 Dec	1.7
Ireland	na	+ 6.9 Q3	na	na	− 6.6 Dec	− 0.7 Nov	4.5 Jan	4.2
Luxembourg	na	+ 1.02001	na	na	+ 1.9 Nov	− 2.3 Sep	3.4 Dec†	2.7
New Zealand	+ 5.0	+ 5.0 Q3	na	na	+ 5.1 Q3	+ 8.1 Q3	4.9 Q4	5.4
Norway	− 0.9	+ 1.0 Q3	na	na	− 4.4 Dec	+ 3.2 Dec	3.7 Q4	3.3
Portugal	na	− 0.5 Q3	na	na	− 1.8 Dec	− 3.5 Dec	5.1 Q3†	4.0

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Oct-Dec; claimant count rate 3.1% in Jan. §EU harmonised rate 8.6% in Jan. **Oct-Dec.

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Prices and wages

Feb 13th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 3.0	Q4	+ 3.1	+ 3.0	+ 2.7	+ 1.6	Q4	– 0.7	+ 3.6	Q3	+ 4.0
Austria	+ 1.8	Dec	+ 1.9	+ 1.8	+ 1.6	+ 1.4	Jan	– 0.4	+ 2.2	Dec	+ 2.7
Belgium	+ 1.2	Jan	+ 2.9	+ 1.7	+ 1.3	+ 1.4	Dec	– 2.6	+ 2.2	Q4	+ 3.1
Britain	+ 2.9	Dec	+ 0.7	+ 2.1	+ 2.6	+ 1.6	Jan	– 0.6	+ 3.7	Dec	+ 3.4
Canada	+ 3.9	Dec	+ 0.7	+ 2.2	+ 2.6	+ 2.8	Dec	– 2.4	+ 2.1	Nov	+ 3.1
Denmark	+ 2.6	Jan	+ 2.5	+ 2.4	+ 2.1	+ 1.3	Dec	+ 0.4	+ 3.9	Q3	+ 4.3
France	+ 2.3	Dec	+ 1.4	+ 1.9	+ 1.5	+ 1.7	Dec	– 1.6	+ 3.4	Q3	+ 4.2
Germany	+ 1.1	Jan	+ 2.1	+ 1.3	+ 1.0	+ 1.2	Jan	+ 0.2	+ 2.3	Nov	+ 2.0
Italy	+ 2.7	Jan	+ 2.4	+ 2.6	+ 2.2	+ 1.5	Dec	– 1.3	+ 2.1	Dec	+ 2.8
Japan	– 0.3	Dec	– 1.2	– 0.9	– 0.7	+ 0.3	Nov	– 0.8	– 1.9	Dec	– 1.9
Netherlands	+ 2.5	Jan*	+ 4.0	+ 3.8	+ 2.5	+ 4.0	Dec	– 2.2	+ 3.4	Dec	+ 4.9
Spain	+ 3.7	Jan	+ 3.1	+ 3.5	+ 2.9	+ 2.0	Dec	– 0.8	+ 3.8	Q3	+ 3.6
Sweden	+ 2.3	Dec	+ 2.9	+ 2.4	+ 2.1	– 0.6	Dec	– 0.8	+ 3.9	Nov	+ 3.0
Switzerland	+ 0.8	Jan	+ 0.5	+ 0.7	+ 0.7	– 0.3	Dec	– 1.9	+ 2.5	2001	+ 1.3
United States	+ 2.4	Dec	+ 1.6	+ 1.6	+ 2.1	+ 1.2	Dec	– 1.6	+ 2.7	Jan	+ 3.8
Euro area	+ 2.1	Jan	+ 2.0	+ 2.2	+ 1.7	+ 1.5	Dec	– 1.0	+ 3.3	Q3	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	Dec	+ 1.8	na	na	+ 1.4	Dec	– 2.7	+ 3.5	Q3	+ 4.7
Greece	+ 3.1	Jan	+ 4.4	na	na	+ 1.4	Dec	+ 1.5	na		na
Iceland	+ 1.5	Feb	+ 8.9	na	na	+ 2.7	Jan	+11.4	+ 5.4	Dec	+ 9.6
Ireland	+ 5.0	Dec	+ 4.2	na	na	– 0.6	Dec	+ 0.2	+ 6.2	Q3	+ 8.1
Luxembourg	+ 2.2	Dec	+ 1.7	na	na	– 0.2	Nov	– 1.0	+ 3.5	Nov	+ 4.2
New Zealand	+ 2.7	Q4	+ 1.8	na	na	– 1.7	Q3	+ 6.2	+ 2.1	Q4	+ 2.2
Norway	+ 5.0	Jan	+ 1.3	na	na	+11.6	Jan	– 8.2	+ 5.0	Q3	+ 4.8
Portugal	+ 4.0	Dec	+ 3.7	na	na	+ 1.3	Dec	+ 0.6	+ 0.2	Dec*	+ 2.2

*Revised series.

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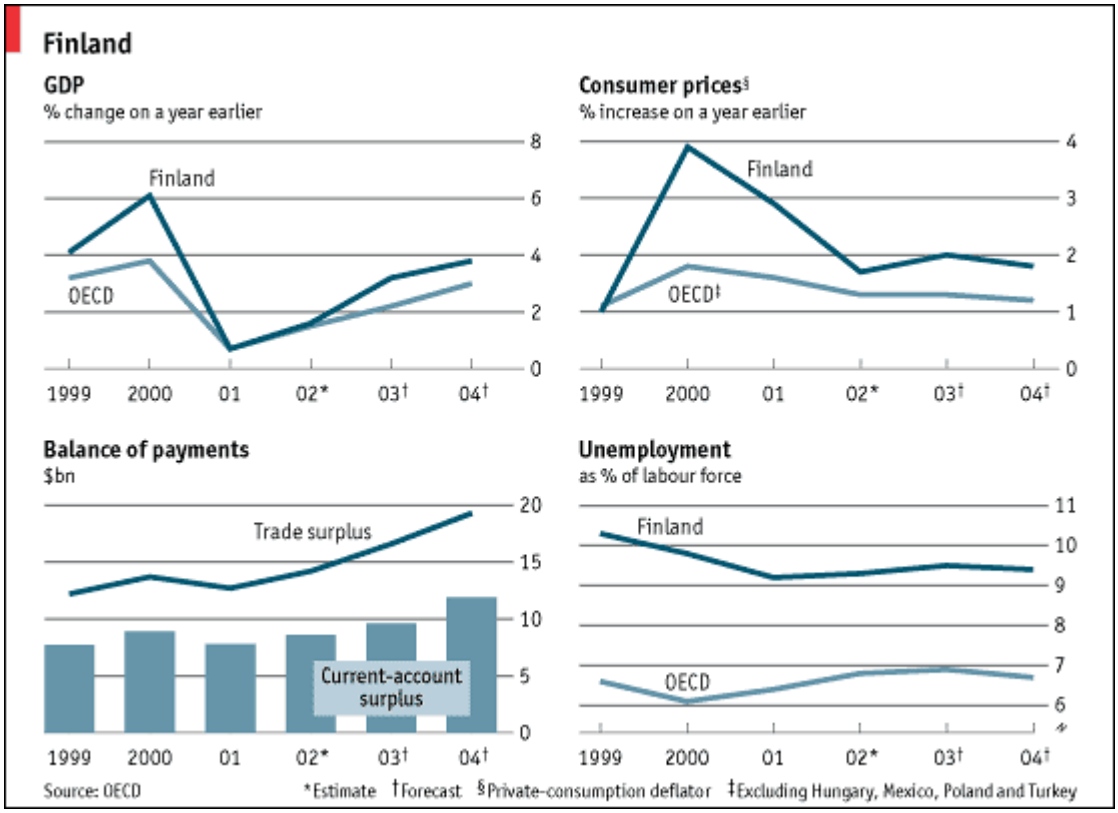
Finland

Feb 13th 2003
From The Economist print edition



After growing by almost 5% a year in 1993-2000, on the back of the technology boom, the Finnish economy suffered a wrenching reverse. Growth slowed from 6.1% in 2000, the third-fastest in the euro area, to 0.7% in 2001, one of the slowest. But unlike the rest of the single-currency zone Finland started to recover in 2002. The OECD now expects it to grow by over 3% in 2003 and by almost 4% in 2004. This forecast looks optimistic: the OECD concedes that it “hinges critically on a continued pick-up in export growth”. In particular, the recovery will be less buoyant if global demand for IT goods remains subdued. Nokia, the mobile-phone giant, produces a quarter of Finland's exports. As a result, the country's economic prospects over the next two years depend to a disconcerting extent on how keen international consumers are to buy third-generation mobile phones.

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Money and interest rates

Feb 13th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Feb 12th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 9.2	+10.6	Dec	4.73	4.30	4.44	5.20	6.01	6.17
Britain	+ 5.5	+ 7.0	Dec	3.69	3.94	3.32	4.12	5.02	5.86
Canada	+ 5.0	+ 5.1	Dec	2.84	2.04	3.39	5.06	5.45	6.91
Denmark	+ 3.8	+ 4.6	Dec	3.10	3.68	2.74	4.16	5.12	6.73
Japan	+23.6	+ 2.0	Jan	0.03	0.04	0.04	0.85	1.49	0.94
Sweden	+ 0.7	+ 2.4	Oct	3.63	3.83	3.60	4.40	5.33	4.05
Switzerland	+10.1	+ 5.6	Dec	0.60	1.67	0.41	2.24	3.49	3.18
United States	+ 3.4	+ 6.3	Dec	1.28	1.77	1.61	3.91	5.04	6.04‡
Euro area†	+ 9.8	+ 6.8	Dec	2.73	3.36	2.41	3.91	4.92	4.38

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡Feb 5th. Benchmarks: US 30-year 4.85%, Japan No.246 0.84%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.75%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 13th 2003
From The Economist print edition

1995=100

	Feb 4th	Feb 11th*	% change on one month	% change on one year
Dollar index				
All items	79.3	79.7	+ 5.1	+18.0
Food	81.4	82.0	+ 5.0	+21.1
Industrials				
All	76.4	76.7	+ 5.2	+13.7
Nfa†	79.6	79.6	+ 4.3	+18.9
Metals	73.6	74.2	+ 6.0	+ 9.4
Sterling index				
All items	75.9	77.8	+ 4.6	+ 4.3
Euro index				
All items	95.9	97.9	+ 3.9	– 3.5
Yen index				
All items	101.2	103.0	+ 8.1	+ 7.8
Gold				
$ per oz	378.75	363.25	+ 3.2	+21.1
West Texas Intermediate				
$ per barrel	33.50	35.45	+ 9.4	+72.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Feb 13th 2003
From The Economist print edition

Market indices

	Feb 12th	2002-03 high	2002-03 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,867.1	3,440.0	2,855.5	– 1.1	–16.7	–14.7	– 1.5
Austria (ATX)	1,135.5	1,357.2	1,003.7	– 2.5	–34.6	– 0.4	+20.1
Belgium (Bel 20)	1,765.3	2,899.8	1,755.1	– 4.4	–52.1	–36.5	–23.5
Britain (FTSE 100)	3,616.1	5,323.8	3,480.8	– 1.7	–47.8	–30.7	–23.0
Canada (Toronto Composite)	6,452.5	7,958.1	5,695.3	– 1.0	–43.3	–16.1	–12.3
Denmark (KBX)	153.1	233.4	152.5	– 0.2	–49.3	–31.9	–17.9
France (SBF 250)	1,864.5	3,081.9	1,794.5	– 3.9	–57.5	–37.5	–24.6
(CAC 40)	2,770.6	4,688.0	2,656.5	– 4.0	–60.0	–40.1	–27.8
Germany (DAX)	2,571.3	5,462.6	2,569.3	– 5.7	–68.1	–50.2	–39.9
Italy (BCI)	1,047.7	1,513.0	974.4	+ 0.7	–52.0	–26.9	–11.9
Japan (Nikkei 225)	8,664.2	11,979.9	8,303.4	+ 1.3	–77.7	–17.8	–11.2
(Topix)	857.2	1,139.4	760.1	+ 1.4	–70.3	–16.9	–10.2
Netherlands (AEX)	275.4	531.2	274.8	– 5.3	–60.7	–45.7	–34.5
Spain (Madrid SE)	612.5	848.1	568.5	– 2.6	–46.6	–25.7	–10.4
Sweden (Affarsvarlden Gen)	137.9	236.8	122.7	– 1.3	–65.6	–40.4	–26.5
Switzerland (Swiss Market)	4,152.2	6,694.1	4,152.2	– 5.3	–50.6	–35.3	–21.4
United States (DJIA)	7,758.2	10,635.3	7,286.8	– 2.8	–33.8	–22.6	–22.6
(S&P 500)	818.7	1,172.5	776.8	– 3.0	–46.4	–28.7	–28.7
(NASDAQ Comp)	1,279.0	2,359.5	1,114.1	– 1.7	–74.7	–34.4	–34.4
Europe (FTSE Eurotop 300)*	774.1	1,279.7	770.2	– 3.3	–54.6	–38.6	–26.0
Euro area (FTSE Ebloc 100)*	647.3	1,125.1	639.4	– 3.7	–58.3	–41.8	–29.8
World (MSCI)†	742.7	1,024.4	703.7	– 2.9	–48.7	na	–26.0
World bond market (Salomon)‡	532.5	832.5	430.3	– 0.5	–36.0	na	+21.1

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Feb 13th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† 1990=100 Feb 12th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Feb 12th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 5.3	Dec	− 14.3	Q3	− 3.9	− 4.2	76.3	73.5	1.69	1.97	2.73	1.82	1.40	0.1
Austria	+ 0.4	Nov	− 0.6	Nov	− 0.1	− 0.4	101.3§	100.3	0.93	1.15	1.51	–	0.77	-1.6
Belgium	+ 18.0	Nov	+ 18.0	Nov	+ 5.2	+ 5.1	100.7§	99.0	0.93	1.15	1.51	–	0.77	nil
Britain	− 51.8	Dec	− 20.5	Q3	− 1.6	− 1.8	103.3	107.8	0.62	0.71	–	0.66	0.51	-1.4
Canada	+ 28.9	Nov	+ 12.4	Q3	+ 1.9	+ 1.9	77.1	76.1	1.53	1.60	2.47	1.64	1.26	0.6
Denmark	+ 7.4	Nov	+ 4.0	Nov	+ 2.2	+ 2.0	104.6	102.0	6.92	8.55	11.2	7.43	5.71	2.2
France	+ 8.1	Nov	+ 27.7	Nov	+ 1.7	+ 1.7	103.7§	101.7	0.93	1.15	1.51	–	0.77	-2.7
Germany	+119.3	Dec	+ 50.4	Dec	+ 2.1	+ 1.8	100.8§	98.6	0.93	1.15	1.51	–	0.77	-3.7
Italy	+ 10.5	Nov	− 5.0	Nov	− 0.2	− 0.2	74.0§	72.6	0.93	1.15	1.51	–	0.77	-2.3
Japan	+ 94.1	Dec	+115.0	Dec	+ 2.8	+ 2.8	128.8	127.9	121	134	196	130	–	-7.9
Netherlands	+ 28.0	Nov	+ 9.0	Q3	+ 3.1	+ 2.6	99.9§	98.0	0.93	1.15	1.51	–	0.77	-0.8
Spain	− 38.7	Nov	− 14.3	Oct	− 2.2	− 2.1	75.5§	74.3	0.93	1.15	1.51	–	0.77	nil
Sweden	+ 14.8	Dec	+ 10.8	Nov	+ 3.5	+ 3.2	79.3	75.4	8.50	10.6	13.7	9.13	7.01	1.7
Switzerland	+ 4.8	Dec	+ 29.8	Q3	+10.3	+10.8	116.4	111.3	1.37	1.69	2.21	1.47	1.13	na
United States	−467.0	Nov	−462.2	Q3	− 4.8	− 5.0	109.3	123.7	–	–	1.62	1.07	0.82	-3.1
Euro area	+ 98.3	Nov	+ 54.0	Nov	+ 0.7	+ 0.8	86.2	78.1	0.93	1.15	1.51	–	0.77	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Nov	+ 10.0	Nov	na	na	79.6§	78.5	0.93	1.15	1.50	–	0.77	3.2
Greece	− 21.1	Nov	− 8.4	Nov	na	na	58.3§	57.5	0.93	1.15	1.50	–	0.77	-1.1
Iceland	+ 0.2	Nov	nil	Q3	na	na	92.1**	83.4	77.5	100.9	125	83.2	63.9	0.3
Ireland	+ 35.9	Nov	+ 0.1	Q3	na	na	90.3§	87.4	0.93	1.15	1.50	–	0.77	-0.5
Luxembourg	− 3.0	Nov	+ 2.1	Q3	na	na	100.7§	99.0	0.93	1.15	1.50	–	0.77	1.8
New Zealand	− 0.7	Dec	− 1.7	Q3	na	na	97.1	82.1	1.82	2.39	2.94	1.95	1.50	1.6
Norway	+ 25.7	Dec	+ 26.1	Nov	na	na	105.9	97.7	6.96	8.96	11.2	7.47	5.74	12.4
Portugal	− 12.9	Nov	− 9.8	Nov	na	na	91.1**	90.2	0.93	1.15	1.50	–	0.77	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD forecast.

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Exchange-rate forecasts

Feb 13th 2003
From The Economist print edition

Exchange-rate forecasts

from J.P. Morgan Chase, currency units per $

	Feb 12th	3-month	12-month
Euro area*	1.07	1.02	1.07
Japan	121.3	126.4	120.6
Australia	1.69	1.69	1.59
Britain†	1.62	1.60	1.62
Canada	1.53	1.54	1.46
Denmark	6.92	7.26	6.92
Sweden	8.50	8.88	8.08
Switzerland	1.37	1.43	1.38
China	8.28	8.26	8.20
Singapore	1.76	1.75	1.72
South Korea	1,199	1,185	1,181
Brazil	3.60	3.76	3.65
Mexico	11.0	10.7	10.6
Poland	3.86	4.06	3.65
Russia	31.6	32.7	34.7
South Africa	8.35	8.29	9.45

*$ per € †$ per £

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Overview

Feb 13th 2003
From The Economist print edition

South Korea is suffering from the crisis over North Korea's suspected nuclear-weapons programme. Moody's, a credit-rating agency, downgraded its outlook for the South Korean economy from “positive” to “negative”. The won slipped, and the stockmarket tumbled to a 15-month low.

Russia's central bank announced that it would target the inflation rate rather than the real exchange rate. The rouble climbed to a 14-week high against the dollar.

In the 12 months to January, **Brazil's** trade surplus quadrupled to $14.1 billion.

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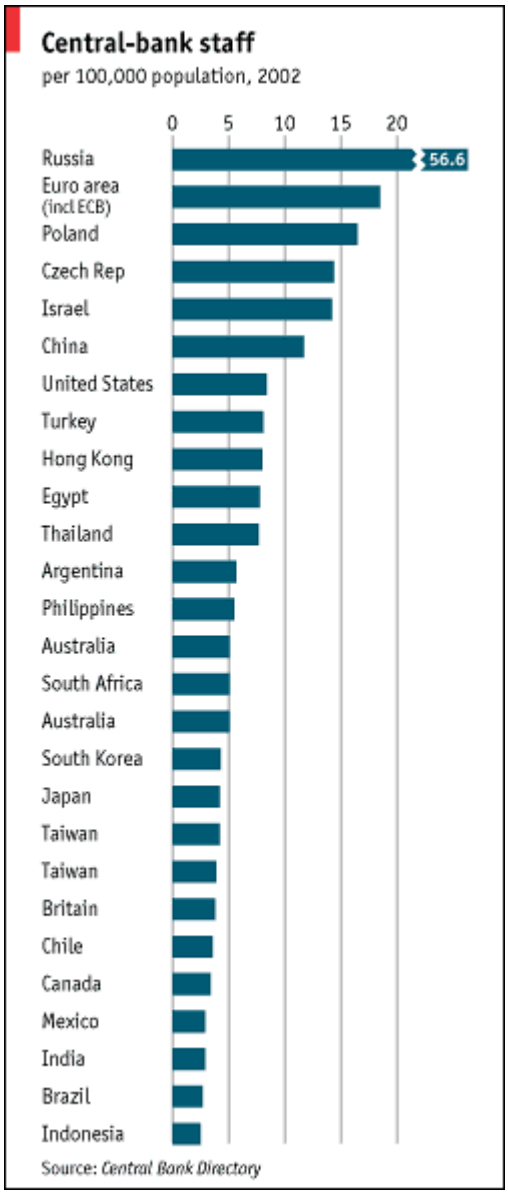
Central-bank staff

Feb 13th 2003
From The Economist print edition

The world has more than half a million central bankers. Russia has a surfeit, with 57 central bankers per 100,000 people, compared with a ratio of less than four in Britain. The euro area is also awash with central bankers, with 18.5 per 100,000 people—more than twice as many as America's Fed. To bring staffing into line with the international average, Europe's national central banks would need to sack 37,609 people.



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Economy

Feb 13th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.2	Q4	+14.9	Dec	– 0.4	Dec	+30.4	Dec	+17.4	2001	269.9	Oct
Hong Kong	+ 3.3	Q3	– 7.2	Q3	– 1.5	Dec	– 7.6	Dec	+16.5	Q3	115.6	Jan
India	+ 5.8	Q3	+ 5.0	Dec	+ 3.2	Dec	– 7.3	Dec	+ 4.5	Q3	69.9	Jan
Indonesia	+ 3.9	Q3	+ 1.6	Nov‡	+ 8.7	Jan	+25.4	Dec	+ 7.5	Q3	30.5	Dec
Malaysia	+ 5.6	Q3	+ 8.0	Dec	+ 1.7	Dec	+13.4	Dec	+ 6.6	Q3	33.5	Jan
Philippines	+ 5.8	Q4	– 0.7	Nov	+ 2.7	Jan	+ 1.8	Nov	+ 6.1	Sep	13.2	Jan
Singapore	+ 2.6	Q4	+19.0	Dec	+ 0.4	Dec	+ 8.7	Dec	+18.9	Q3	84.0	Jan
South Korea	+ 5.8	Q3	+ 9.5	Dec	+ 3.8	Jan	+11.3	Dec	+ 6.5	Nov	122.8	Jan
Taiwan	+ 4.8	Q3	+10.5	Dec	+ 0.8	Jan	+16.3	Jan	+25.0	Q3	164.8	Jan
Thailand	+ 6.0	Q3	+12.0	Dec	+ 2.2	Jan	+ 4.2	Dec	+ 7.6	Dec	38.1	Dec
Argentina	–10.1	Q3	– 4.6	Nov	+39.6	Jan	+16.4	Dec	+ 7.0	Q3	10.5	Dec
Brazil	+ 2.4	Q3	+ 5.5	Dec	+12.5	Dec	+14.1	Jan	– 7.8	Dec	37.8	Dec
Chile	+ 1.8	Q3	+ 7.2	Dec	+ 3.0	Jan	+ 2.4	Dec	+ 0.9	Q3	16.4	Jan
Colombia	+ 1.9	Q3	+ 0.6	Nov	+ 7.4	Jan	+ 0.1	Oct	– 1.5	Q3	10.9	Jan
Mexico	+ 1.8	Q3	+ 1.7	Dec	+ 5.2	Jan	– 8.2	Dec	–16.1	Q3	50.6	Dec
Peru	+ 5.9	Nov	+ 7.4	Nov	+ 2.3	Jan	+ 0.3	Nov	– 1.0	Q3	9.1	Dec
Venezuela	– 5.5	Q3	–10.5	Oct	+33.8	Jan	+11.4	Q3	+ 4.9	Q3	9.1	Nov
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.1	Nov	– 8.0	Sep	+ 0.1	Q3	13.0	Oct
Israel	– 0.8	Q3	– 4.0	Nov	+ 6.5	Dec	– 6.6	Jan	– 1.9	Q3	23.8	Jan
South Africa	+ 3.1	Q3	+ 1.5	Dec	+14.4	Dec	+ 3.8	Dec	nil	Q3	5.9	Dec
Turkey	+ 7.9	Q3	+13.5	Dec	+26.4	Jan	–13.6	Nov	+ 0.1	Nov	26.8	Dec
Czech Republic	+ 1.5	Q3	+ 4.4	Nov	– 0.4	Jan	– 2.4	Dec	– 4.2	Q3	24.3	Jan
Hungary	+ 3.4	Q3	+ 6.9	Dec	+ 4.8	Dec	– 3.0	Nov	– 3.3	Nov	15.3	Jan
Poland	+ 1.6	Q3	+ 5.1	Dec	+ 0.8	Dec	–10.3	Dec	– 5.7	Dec	28.7	Dec
Russia	+ 4.3	Q3	+ 3.2	Dec	+14.3	Jan	+46.2	Dec	+30.3	Q3	45.5	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	– 0.5	Jun	+ 3.3	Dec	– 1.3	Dec	+ 2.7	2002†	8.1	Dec
Saudi Arabia	+ 1.2	2001	na		– 0.9	Oct	+39.2	2001	+ 9.4	2001	20.6	Dec

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Feb 13th 2003
From The Economist print edition

	Currency units per $ Feb 12th	Currency units per $ year ago	Currency units per £ Feb 12th	Interest rates short-term % p.a.	Stockmarkets Feb 12th	% change on Dec 31st 2001 one week	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
China	8.28	8.28	13.4	na	1,579.1	+0.8	– 7.8	– 7.8
Hong Kong	7.80	7.80	12.6	1.42	9,314.9	+1.5	– 18.3	– 18.3
India	47.9	48.7	77.4	5.56	3,247.5	–0.3	– 0.5	+ 0.3
Indonesia	8,965	10,188	14,490	13.28	395.6	+0.8	+ 0.9	+ 17.0
Malaysia	3.80	3.80	6.14	3.10	660.0	–1.2	– 5.2	– 5.2
Philippines	53.9	51.4	87.2	7.75	1,041.4	+0.4	– 10.8	– 14.7
Singapore	1.76	1.83	2.84	0.75	1,296.0	+0.3	– 20.2	– 16.2
South Korea	1,199	1,315	1,938	4.53	583.3	–2.9	– 15.9	– 7.9
Taiwan	34.7	35.0	56.0	1.50	4,624.9	–7.8	– 16.7	– 15.9
Thailand	43.0	43.8	69.5	1.82	380.3	+1.9	+ 25.1	+ 28.7
Argentina	3.08	1.91	4.97	5.50	582.0	+3.5	+ 97.0	– 35.9
Brazil	3.60	2.43	5.82	25.30	10,509.9	–0.8	– 22.6	– 50.3
Chile	747	674	1,208	2.64	5,051.8	+0.8	– 6.4	– 17.2
Colombia	2,961	2,317	4,786	7.78	1,628.8	+0.5	+ 52.1	+ 17.0
Mexico	10.99	9.06	17.8	9.11	5,763.9	–3.4	– 9.5	– 24.5
Peru	3.48	3.48	5.63	3.93	1,516.4	–1.2	+ 29.0	+ 27.5
Venezuela	1,922	991	3,106	30.42	7,935.3	–6.1	+ 20.8	– 52.4
Egypt	5.50	4.63	8.88	8.68	6,003.3§	–3.7	+ 13.9	– 5.2
Israel	4.87	4.65	7.87	6.03	307.5	–0.6	– 31.2	– 37.6
South Africa	8.4	11.5	13.5	13.60	8,689.2	–2.0	– 16.8	+ 19.5
Turkey	1,652,500	1,350,000	2,670,936	42.00	11,014.0**	+3.3	– 20.1	– 29.6
Czech Republic	29.5	36.3	47.6	2.48	475.9	+0.1	+ 20.6	+ 45.5
Hungary	228	279	368	5.78	7,478.4	+0.6	+ 4.9	+ 26.4
Poland	3.86	4.19	6.24	6.41	13,806.1	–0.5	– 0.8	+ 1.6
Russia	31.6	30.9	51.1	21.00	369.4	+6.5	+ 47.4	+ 42.1
EMF (MSCI)*	1.00	1.00	1.62	na	283.8	–2.6	na	– 10.6
EMBI+†	1.00	1.00	1.62	na	234.6	+0.6	na	+ 17.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. §Feb 6th.**Feb 7th

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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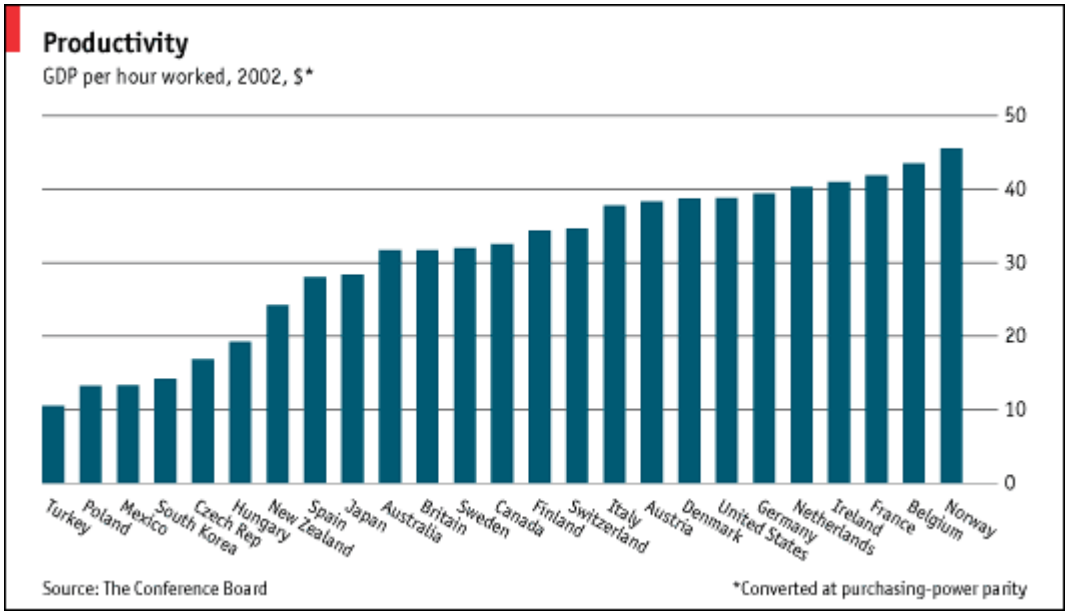
Productivity

Feb 20th 2003
From The Economist print edition



America's workers are more productive than Europe's, and the gap is widening. But several European countries have higher levels of output per man-hour than the United States. America can claim to have higher living standards, as measured by GDP per person, only because more people are employed and they work longer hours. By contrast, France, ranked third in productivity, ranks only 16th in GDP per head.

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Money and interest rates

Feb 20th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Feb 19th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 9.2	+10.6	Dec	4.69	4.30	4.47	5.22	5.92	6.19
Britain	+ 5.5	+ 7.0	Dec	3.63	4.00	3.36	4.15	5.07	5.88
Canada	+ 5.0	+ 5.1	Dec	2.78	2.03	3.48	5.06	5.36	6.87
Denmark	+ 3.8	+ 4.6	Dec	3.11	3.70	2.71	4.13	5.09	6.73
Japan	+23.6	+ 2.0	Jan	0.03	0.05	0.04	0.87	1.52	1.00
Sweden	+ 0.6	+ 2.8	Nov	3.60	3.84	3.58	4.39	5.30	4.03
Switzerland	+10.1	+ 5.6	Dec	0.60	1.68	0.32	2.23	3.86	3.18
United States	+ 2.9	+ 6.2	Jan	1.38	1.82	1.60	3.86	4.93	6.06
Euro area†	+ 9.8	+ 6.8	Dec	2.69	3.35	2.43	3.89	4.88	4.27

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.82%, Japan No.246 0.86%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.75%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 20th 2003
From The Economist print edition

1995=100

	Feb 11th	Feb 18th*	% change on one month	% change on one year
Dollar index				
All items	79.8	78.8	+ 2.5	+16.8
Food	82.0	81.4	+ 2.8	+19.4
Industrials				
All	76.7	75.3	+ 2.0	+13.1
Nfa†	79.7	78.8	+ 4.5	+19.4
Metals	74.2	72.3	– 0.1	+ 7.8
Sterling index				
All items	77.8	78.1	+ 3.6	+ 4.8
Euro index				
All items	97.9	97.0	+ 2.4	– 4.5
Yen index				
All items	103.0	99.9	+ 2.9	+ 4.1
Gold				
$ per oz	363.25	344.75	– 3.4	+15.6
West Texas Intermediate				
$ per barrel	35.45	36.84	+ 8.2	+78.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Feb 20th 2003
From The Economist print edition

Market indices

	Feb 19th	2002-03 high	2002-03 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,849.9	3,440.0	2,804.4	– 0.6	–17.2	–15.2	– 1.6
Austria (ATX)	1,158.4	1,357.2	1,003.7	+ 2.0	–33.3	+ 1.6	+22.5
Belgium (Bel 20)	1,802.6	2,899.8	1,744.3	+ 2.1	–51.0	–35.2	–21.8
Britain (FTSE 100)	3,658.3	5,323.8	3,480.8	+ 1.2	–47.2	–29.9	–23.2
Canada (Toronto Composite)	6,559.7	7,958.1	5,695.3	+ 1.7	–42.4	–14.7	–10.0
Denmark (KBX)	156.8	233.4	152.5	+ 2.5	–48.0	–30.2	–15.8
France (SBF 250)	1,914.9	3,081.9	1,794.5	+ 2.7	–56.4	–35.8	–22.5
(CAC 40)	2,859.2	4,688.0	2,656.5	+ 3.2	–58.7	–38.2	–25.4
Germany (DAX)	2,624.7	5,462.6	2,555.3	+ 2.1	–67.5	–49.1	–38.6
Italy (BCI)	1,071.4	1,513.0	974.4	+ 2.3	–50.9	–25.3	– 9.8
Japan (Nikkei 225)	8,678.4	11,979.9	8,303.4	+ 0.2	–77.7	–17.7	– 9.1
(Topix)	853.6	1,139.4	760.1	– 0.4	–70.4	–17.3	– 8.7
Netherlands (AEX)	286.1	531.2	274.8	+ 3.9	–59.2	–43.5	–31.9
Spain (Madrid SE)	631.2	848.1	568.5	+ 3.1	–44.9	–23.4	– 7.6
Sweden (Affarsvarlden Gen)	142.8	236.8	122.7	+ 3.6	–64.3	–38.3	–23.7
Switzerland (Swiss Market)	4,210.9	6,694.1	4,152.2	+ 1.4	–49.9	–34.4	–20.4
United States (DJIA)	8,000.6	10,635.3	7,286.8	+ 3.1	–31.8	–20.2	–20.2
(S&P 500)	845.1	1,172.5	776.8	+ 3.2	–44.7	–26.4	–26.4
(NASDAQ Comp)	1,334.3	2,359.5	1,114.1	+ 4.3	–73.6	–31.6	–31.6
Europe (FTSE Eurotop 300)*	785.3	1,279.7	769.5	+ 1.4	–53.9	–37.7	–24.9
Euro area (FTSE Ebloc 100)*	665.6	1,125.1	639.4	+ 2.8	–57.1	–40.2	–27.8
World (MSCI)†	761.2	1,024.4	703.7	+ 2.5	–47.5	na	–24.2
World bond market (Salomon)‡	536.4	537.9	430.3	+ 0.7	– 0.3	na	+22.0

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Feb 20th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† 1990=100 Feb 19th	year ago	Currency units per $ Feb 19th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 5.3	Dec	− 14.3	Q3	− 3.9	− 4.2	76.2	74.7	1.68	1.93	2.69	1.81	1.42	0.1
Austria	+ 0.4	Nov	+ 0.8	Dec	− 0.1	− 0.4	101.3§	100.3	0.93	1.15	1.48	–	0.78	-1.6
Belgium	+ 17.5	Dec	+ 18.0	Nov	+ 5.2	+ 5.1	100.7§	99.0	0.93	1.15	1.48	–	0.78	nil
Britain	− 51.8	Dec	− 20.5	Q3	− 1.6	− 1.8	101.8	107.6	0.63	0.70	–	0.67	0.53	-1.4
Canada	+ 28.9	Nov	+ 12.4	Q3	+ 1.9	+ 1.9	77.7	76.2	1.51	1.59	2.41	1.63	1.27	0.6
Denmark	+ 8.0	Dec	+ 5.0	Dec	+ 2.2	+ 2.0	104.7	101.9	6.92	8.52	11.0	7.43	5.83	2.2
France	+ 9.7	Dec	+ 28.3	Dec	+ 1.7	+ 1.7	103.7§	101.7	0.93	1.15	1.48	–	0.78	-2.7
Germany	+119.3	Dec	+ 50.4	Dec	+ 2.1	+ 1.8	100.8§	98.6	0.93	1.15	1.48	–	0.78	-3.7
Italy	+ 10.5	Nov	− 5.0	Nov	− 0.2	− 0.2	74.0§	72.6	0.93	1.15	1.48	–	0.78	-2.3
Japan	+ 94.1	Dec	+115.0	Dec	+ 2.8	+ 2.8	131.6	127.1	119	134	189	128	–	-7.9
Netherlands	+ 29.0	Dec	+ 9.1	Q4	+ 3.1	+ 2.6	99.9§	98.0	0.93	1.15	1.48	–	0.78	-0.8
Spain	− 38.7	Nov	− 15.3	Nov	− 2.2	− 2.1	75.5§	74.3	0.93	1.15	1.48	–	0.78	nil
Sweden	+ 14.8	Dec	+ 9.9	Dec	+ 3.5	+ 3.2	79.5	75.7	8.48	10.6	13.5	9.11	7.14	1.7
Switzerland	+ 4.8	Dec	+ 29.8	Q3	+10.3	+10.8	116.1	111.4	1.37	1.70	2.18	1.47	1.15	na
United States	−467.0	Nov	−462.2	Q3	− 4.8	− 5.0	108.5	123.9	–	–	1.60	1.07	0.84	-3.1
Euro area	+ 97.7	Dec	+ 54.0	Nov	+ 0.7	+ 0.8	86.3	78.2	0.93	1.15	1.48	–	0.78	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.2	Dec	+ 10.3	Dec	na	na	79.6§	78.5	0.93	1.15	1.48	–	0.78	3.2
Greece	− 21.5	Dec	− 9.0	Dec	na	na	58.3§	57.5	0.93	1.15	1.48	–	0.78	-1.1
Iceland	+ 0.2	Nov	nil	Q3	na	na	92.1**	83.4	79.0	100.8	126	84.9	66.6	0.3
Ireland	+ 35.9	Nov	+ 0.1	Q3	na	na	90.3§	87.4	0.93	1.15	1.48	–	0.78	-0.5
Luxembourg	− 3.0	Nov	+ 2.1	Q3	na	na	100.7§	99.0	0.93	1.15	1.48	–	0.78	1.8
New Zealand	− 0.7	Dec	− 1.7	Q3	na	na	97.1	82.7	1.81	2.38	2.88	1.94	1.52	1.6
Norway	+ 26.8	Jan	+ 26.1	Nov	na	na	105.2	98.4	7.00	8.91	11.2	7.52	5.90	12.4
Portugal	− 12.9	Nov	− 9.8	Nov	na	na	91.1**	90.2	0.93	1.15	1.48	–	0.78	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD estimate. **IMF, October average.

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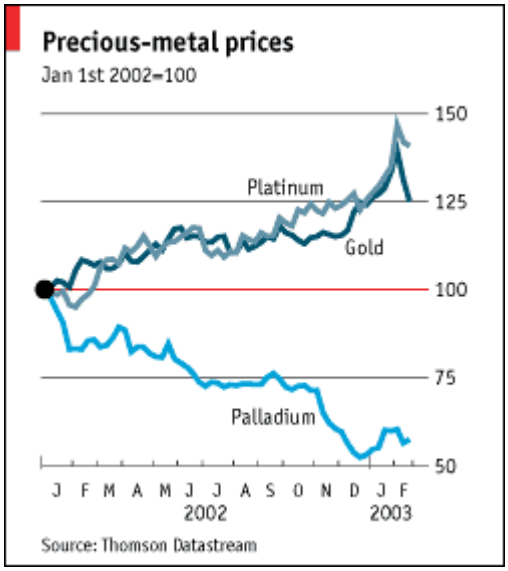
Precious-metal prices

Feb 20th 2003
From The Economist print edition

Gold has fallen by 11% from the six-year high it touched earlier this month. Platinum has also retreated, from a near 23-year high. But palladium is now 77% below its peak in January 2001.



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Overview

Feb 20th 2003
From The Economist print edition

China ran its first monthly trade deficit for six years in January, because of rising oil imports and higher oil prices. Over the past 12 months, it has notched up a hefty surplus of $26.5 billion. Chinese factories increased their output by 14.8% in the year to January.

In **Indonesia**, industrial production grew by a robust 7.1% in the 12 months to December. GDP was 3.8% higher in the fourth quarter of 2002 than a year earlier.

In **Brazil**, consumer-price inflation picked up to 14.5% in the 12 months to January. But in **South Africa**, inflation eased a little to 13.7%.

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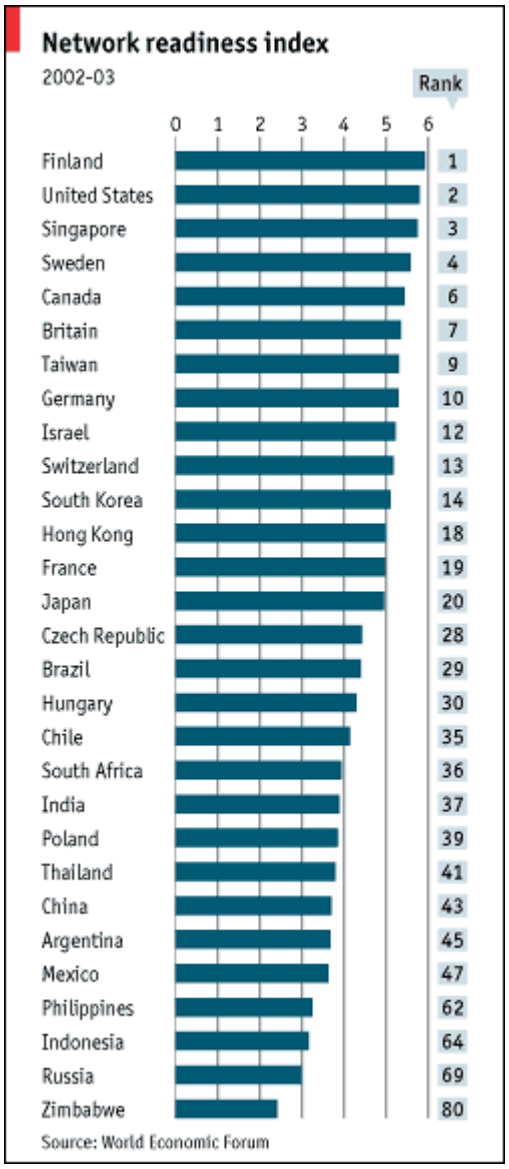
Network readiness index

Feb 20th 2003
From The Economist print edition

Finland tops the "network readiness index" compiled by the World Economic Forum in its new Global Information Technology Report. The index ranks 82 countries on market and regulatory conditions, network infrastructure, and the level of usage by individuals, businesses and governments. Finland came top because technology usage is high across the board, whereas business use dominates in the United States.



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Economy

Feb 20th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.2	Q4	+14.8	Jan	– 0.4	Dec	+26.5	Jan	+17.4	2001	269.9	Oct
Hong Kong	+ 3.3	Q3	– 7.2	Q3	– 1.5	Dec	– 7.6	Dec	+16.5	Q3	115.6	Jan
India	+ 5.8	Q3	+ 5.0	Dec	+ 3.2	Dec	– 7.3	Dec	+ 4.5	Q3	69.9	Jan
Indonesia	+ 3.8	Q4	+ 7.1	Dec‡	+ 8.7	Jan	+25.4	Dec	+ 7.5	Q3	30.5	Dec
Malaysia	+ 5.6	Q3	+ 8.0	Dec	+ 1.7	Jan	+13.4	Dec	+ 6.6	Q3	33.5	Jan
Philippines	+ 5.8	Q4	– 0.7	Nov	+ 2.7	Jan	+ 1.6	Dec	+ 6.1	Sep	13.2	Jan
Singapore	+ 2.6	Q4	+19.0	Dec	+ 0.4	Dec	+ 8.7	Dec	+18.9	Q3	84.0	Jan
South Korea	+ 5.8	Q3	+ 9.5	Dec	+ 3.8	Jan	+10.8	Jan	+ 6.5	Nov	122.8	Jan
Taiwan	+ 4.8	Q3	+10.5	Dec	+ 0.8	Jan	+16.3	Jan	+25.8	Q4	164.8	Jan
Thailand	+ 6.0	Q3	+12.0	Dec	+ 2.2	Jan	+ 4.2	Dec	+ 7.6	Dec	38.1	Dec
Argentina	–10.1	Q3	– 5.4	Nov	+39.6	Jan	+16.4	Dec	+ 7.0	Q3	10.5	Dec
Brazil	+ 2.4	Q3	+ 5.5	Dec	+14.5	Jan	+14.1	Jan	– 7.8	Dec	37.8	Dec
Chile	+ 1.8	Q3	+ 7.2	Dec	+ 3.0	Jan	+ 2.4	Dec	+ 0.9	Q3	16.4	Jan
Colombia	+ 1.9	Q3	+ 0.6	Nov	+ 7.4	Jan	nil	Nov	– 1.5	Q3	10.9	Jan
Mexico	+ 1.9	Q4	+ 1.7	Dec	+ 5.2	Jan	– 8.2	Dec	–16.1	Q3	50.6	Dec
Peru	+ 5.9	Nov	+11.7	Dec	+ 2.3	Jan	+ 0.3	Dec	– 1.0	Q3	9.1	Dec
Venezuela	– 5.5	Q3	–10.5	Oct	+33.8	Jan	+11.4	Q3	+ 7.6	Q4	9.1	Nov
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.1	Nov	– 8.0	Sep	+ 0.1	Q3	13.0	Oct
Israel	+ 1.3	Q4	– 4.0	Nov	+ 5.6	Jan	– 6.6	Jan	– 1.9	Q3	23.8	Jan
South Africa	+ 3.1	Q3	+ 1.5	Dec	+13.7	Jan	+ 3.8	Dec	nil	Q3	5.9	Dec
Turkey	+ 7.9	Q3	+13.5	Dec	+26.4	Jan	–13.6	Nov	+ 0.1	Nov	26.8	Dec
Czech Republic	+ 1.5	Q3	+ 6.6	Dec	– 0.4	Jan	– 2.4	Dec	– 4.2	Q3	24.3	Jan
Hungary	+ 3.4	Q3	+ 6.9	Dec	+ 4.7	Jan	– 3.0	Nov	– 3.3	Nov	15.3	Jan
Poland	+ 1.6	Q3	+ 4.2	Jan	+ 0.4	Jan	–10.3	Dec	– 5.7	Dec	29.3	Jan
Russia	+ 4.3	Q3	+ 4.9	Jan	+14.3	Jan	+46.2	Dec	+30.3	Q3	45.5	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	– 0.5	Jun	+ 3.4	Jan	– 1.3	Jan	+ 2.7	2002†	8.1	Dec
Saudi Arabia	+ 1.2	2001	na		– 0.9	Oct	+39.2	2001	+ 9.4	2001	20.6	Dec

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Feb 20th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 19th		Dec 31st 2001	
	Feb 19th	year ago	Feb 19th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.2	na	1,579.2	+0.0	– 7.8	– 7.8
Hong Kong	7.80	7.80	12.4	1.40	9,427.6	+1.2	– 17.3	– 17.3
India	47.7	48.6	76.0	5.72	3,302.0	+1.7	+ 1.2	+ 2.4
Indonesia	8,880	10,187	14,164	13.17	402.0	+1.6	+ 2.5	+ 20.1
Malaysia	3.80	3.80	6.06	3.10	661.0	+0.2	– 5.0	– 5.0
Philippines	54.3	51.3	86.6	8.19	1,029.3	–1.2	– 11.9	– 16.2
Singapore	1.75	1.83	2.79	0.66	1,315.5	+1.5	– 19.0	– 14.6
South Korea	1,191	1,315	1,900	4.54	600.8	+3.0	– 13.4	– 4.5
Taiwan	34.7	35.1	55.3	1.50	4,550.8	–1.6	– 18.0	– 17.2
Thailand	43.0	43.8	68.6	1.82	371.2	–2.4	+ 22.2	+ 25.6
Argentina	3.19	2.16	5.08	5.30	580.5	–0.3	+ 96.5	– 38.3
Brazil	3.61	2.43	5.76	25.34	10,251.9	–2.5	– 24.5	– 51.7
Chile	748	675	1,193	2.64	5,016.3	–0.7	– 7.1	– 17.8
Colombia	2,936	2,282	4,683	7.75	1,584.7	–2.7	+ 48.0	+ 14.8
Mexico	10.84	9.09	17.3	8.90	5,857.4	+1.6	– 8.1	– 22.3
Peru	3.48	3.47	5.55	3.93	1,534.1	+1.2	+ 30.5	+ 29.1
Venezuela	1,598	954	2,549	21.65	8,140.2	+2.6	+ 23.9	– 41.3
Egypt	5.51	4.61	8.79	8.68	6,052.2	+0.8	+ 14.8	– 4.7
Israel	4.86	4.68	7.76	6.03	316.7	+3.0	– 29.1	– 35.7
South Africa	8.3	11.4	13.3	13.60	8,570.8	–1.4	– 17.9	+ 18.3
Turkey	1,636,000	1,370,500	2,609,420	42.00	11,607.3	+5.4	– 15.8	– 25.1
Czech Republic	29.4	36.6	46.9	2.40	479.9	+0.8	+ 21.6	+ 47.1
Hungary	229	279	366	5.15	7,262.7	–2.9	+ 1.8	+ 22.1
Poland	3.87	4.18	6.17	6.32	13,844.8	+0.3	– 0.6	+ 1.5
Russia	31.6	30.9	50.4	18.00	369.2	–0.1	+ 47.0	+ 42.0
EMF (MSCI)*	1.00	1.00	1.60	na	285.4	+0.6	na	– 10.1
EMBI+†	1.00	1.00	1.60	na	236.4	+0.8	na	+ 18.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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